federal-provincial social security review

background paper on income support and supplementation

prepared by officials of the federal-provincial working party on income maintenance

published under the authority of the federal-provincial conference of ministers of welfare

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FEDERAL-PROVINCIAL
SOCIAL SECURITY REVIEW

Background Paper on Income Support and Supplementation

PREPARED BY OFFICIALS OF THE
FEDERAL-PROVINCIAL WORKING PARTY
ON INCOME MAINTENANCE

PUBLISHED UNDER THE AUTHORITY OF
THE FEDERAL-PROVINCIAL CONFERENCE OF
MINISTERS OF WELFARE

FEBRUARY, 1975

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PREFACE

In April 1973, the governments of Canada and of the ten provinces undertook a complete review of Canada's social security system following the tabling by the federal government of the Working Paper on Social Security in Canada.

The review is being conducted under the direction of the Federal-Provincial Conference of Ministers of Welfare. Responsibility for the organization and supervision of the work involved in the review was assigned by the Ministers to their Deputy Ministers serving as the Continuing Committee on Social Security. Three Working Parties of officials (on Employment Strategy, on Social Services, and on Income Maintenance) were established by and report to this Continuing Committee.

The Working Party on Employment Strategy concentrated heavily on the development of the concept of a Community Employment strategy. Federal and provincial governments have expressed the view that providing jobs for people must be the first strategy for providing income security. The development of the Community Employment strategy has proceeded beyond the discussion stage, as the Minister of Manpower and Immigration and Provincial Ministers have made progress toward implementing projects in some 20 jointly selected communities in Canada.

The Working Party on Social Services has concentrated on the review and analysis of all social service programmes in Canada, including their design, delivery, financing, and coordination. The results of the deliberations of the Working Party are currently being considered by the Continuing Committee.

The Working Party on Income Maintenance was established with the mandate to consider the issues involved in the development of more adequate social insurance programmes, and in the provision of income support and supplementation where it is required by Canadian families. The first changes resulting from this part of the Social Security Review were the 1973 and 1974 changes in the Family Allowance programme and in the Canada and Quebec Pension Plans. The increase by the Government of Canada of Family Allowances to an average of $20 per child each month was the first major step taken; at that time too, flexibility was introduced into the Family Allowance programme whereby the provinces can vary the exact amount of the allowance according to the age of the child or the size of the family.

The Working Party on Income Maintenance reported on the Canada and Quebec Pension Plans to the Continuing Committee in September, 1973. At their October 1973 Conference, the Ministers of Welfare announced they had agreed that the pensions paid under both the Canada and Quebec Pension Plans should be fully escalated in response to increases in the cost of living, starting in 1974. They also agreed that the levels of earnings upon which benefits and contributions under the two plans are based should be increased, and made identical under both plans. Thus this Conference succeeded both in improving the benefits of the Canada and Quebec Pension Plans and in restoring parallelism between two of the most important elements of the two plans. It was also agreed that, where the Canada Pension Plan operates, retirement pensions will become payable at age 65 to any person who has ceased to contribute to the Plan, regardless of his or her earnings. Thus the

earnings test which has been applied to people between 65 and 69 has been eliminated. The Government of Quebec had already liberalized the Earnings Test under the Quebec Pension Plan.

Since October 1973, the Working Party on Income Maintenance has concentrated on the development of income support/supplementation options. The attached report outlines in a technical fashion the options available to the federal and provincial governments for modifying or substantially altering the income support/supplementation component of the social security system. The other part of the Working Party's mandate is the further analysis of the social insurance component of the social security system. Work is proceeding on this front with considerable emphasis being placed on the relationship between social insurance and income support/supplementation. The purpose of this particular progress report is to outline the options available for income support/supplementation. It is a report which was developed jointly by federal and provincial officials; it is not a final report and does not necessarily represent the position of any of the governments involved.

This report reveals some of the complexities of the issues involved in the Social Security Review. It indicates the interrelationships between the several elements of the social security field, and also the relationship between social security and such other measures as employment, minimum wages, housing, income tax and other policies which are not usually thought of in relationship to the social security system. The complexity of the issues and the dimensions of the choices that must be made have encouraged the Ministers to place this document in the public forum. The issues considered in this report underline the reason why the Federal-Provincial Conference of Ministers undertook the Social Security Review: almost no one is content with the current system — doing nothing, maintaining the status quo, does not seem to be a viable alternative.

Officials have progressed to the point of providing initial estimates of the additional impact cost of each income support/supplementation option. Since these are early estimates, they are presented on an indexed basis, rather than in absolute terms. To place excessive importance on the initial cost figures at this time, without fully expanding the design features or considering the subsequent impact of each option, would be misleading. For example, an option with a very low net cost but which eliminates all work incentive for low-income Canadians would, without doubt, have a much higher cost to the Canadian economy in the longer run.

After considering the income support/supplementation options at the November 1974 meeting, the Ministers of Welfare decided to instruct the federal and provincial officials to concentrate their studies on the first three of the options. The reasons for preferring these options (1, 2 and 3) to the child-related options (4, 5 and 6) were twofold. First, only the first three options would meet the needs of all the poor, whether the poverty was occasioned by family size in relation to family income, or by less-than-full-time incomes. Secondly, these three options would likely make easier the optimum integration of all elements of the Income Maintenance system.

The Conference noted that in all of the options selected by Ministers for further study the levels of income support may vary across the country, depending upon living costs and levels, and should also meet the different

needs of those who are handicapped or otherwise disabled, or who have other particular social needs. The Conference noted, too, that the three options selected by Ministers implied the introduction of national norms or criteria in such legislation, norms which would at one and the same time achieve the desired reforms in the present welfare system, but also retain for the provinces the degree of flexibility required in a country as diversified as Canada.

Ministers agreed that the principal difference between a single guaranteed income plan (Option 1) and a two-part, but integrated, income support and supplementation plan (Options 2 or 3) was the question of who would be eligible for the higher levels of income support. Under the first option eligibility would be determined essentially upon the basis of income. Under the second and third options, eligibility for those higher levels of support would be restricted to those who are unable to work or to find work, or those who met criteria which would have the effect of limiting full support to people in such a situation. There was general agreement that any restrictions or exclusions of people from the higher levels of income support should be based, if at all possible, upon more objective eligibility requirements. The Continuing Committee on Social Security was directed to examine alternative approaches to achieve this end.

With this brief summary of the Social Security Review, the Federal-Provincial Conference of Welfare Ministers presents the progress report as a vehicle for encouraging public understanding and discussion of the income support/supplementation component of the social security system.

Marc Lalonde

Honourable Marc Lalonde
Chairman
Federal-Provincial
Conference of Ministers of Welfare.

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FEDERAL-PROVINCIAL
SOCIAL SECURITY REVIEW

Progress Report of the Working Party on Income Maintenance to the Continuing Committee on Social Security

OCTOBER 31, 1974

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PROGRESS REPORT
of the
WORKING PARTY ON INCOME MAINTENANCE
to the
CONTINUING COMMITTEE ON SOCIAL SECURITY

I. Mandate and Context of the Report

A. INTRODUCTION

In February, 1974, the Working Party on Income Maintenance reported to the Continuing Committee on Social Security on six basic approaches that might be used in providing support/supplementation. As this process of specifying, analyzing and evaluating each variation of these approaches is extremely complex and time-consuming the Working Party asked the Continuing Committee to narrow the set of options to be further developed.

The Continuing Committee on Social Security grouped the six basic approaches into three families of approaches for the consideration of the Federal and Provincial Ministers of Welfare:

1. *Development of a new omnibus programme* which would bring together social insurance, or income protection measures, plus income supplementation for those who are working but at unacceptably low incomes.
2. Continuing to employ social insurance programmes as a method of meeting interruptions of income and providing for retirement, and *development of a separate but integrated* income support and supplementation plan designed to assure adequate incomes both to those who are not working and those who are working but at unacceptably low incomes. Three ways of approaching the development of such an integrated income support and supplementation plan were outlined:
   a) Reforming existing social assistance schemes and extending their benefits to those working, but at unacceptably low incomes;
   b) Developing a substantially new income support and supplementation scheme designed to meet the needs of both groups of people described above; and
   c) Developing a scheme which would meet the needs of those who are working, but at unacceptably low incomes, and then integrating this scheme with the (reformed) social assistance schemes.
3. *Adaptation of present social insurance programmes* so as to supplement through them the incomes of those who are working, but at unacceptably low incomes, and retain social assistance measures to meet the needs of those who, generally speaking, are not working.

The Continuing Committee felt that the first family of approaches, despite its conceptual appeal, was not practical. It recommended to the Ministers that all approaches of the second family be explored and that their interrelationships with the positive tax system be fully examined. The third family of approaches was considered inappropriate as a main vehicle for providing income supplementation to the working poor.

On February 19 and 20, 1974, the Ministers directed the Working Party on Income Maintenance to develop the approaches of the second family and instructed it to develop the "first family of approaches" to serve as a benchmark against which other options could be assessed. Ministers asked the Working Party on Income Maintenance to keep in mind the following dimensions in the development of the various options retained:

a) the interrelationships with the positive tax system;

b) the existence of regional disparities and hence the necessity of relating income security proposals to the level of economic life prevailing in various regions of Canada and within provinces; and

c) the importance of simplifying the income security system.

In accordance with the Ministers and the Continuing Committee on Social Security's instructions, the Working Party on Income Maintenance has given priority to the development of support/supplementation options, while at the same time continuing its examination (via a sub-committee) of the social insurance system.

This Report focusses primarily on support/supplementation. While it does not deal in depth with the other elements of the income maintenance system, it can be said that they have been a constant preoccupation and that the relationships between those elements (as well as the relevant components of social services, housing, and other related programmes) and the support/supplementation system must be more fully explored in the next phase of work. (This is discussed further in *Part II* below). In general it was felt that more detailed consideration of possible changes in the *structure* of social insurance or other related programmes might profitably *follow* a further "narrowing-down" of support/supplementation options. This "narrowing-down" process might enlarge the range of choices available for improvement of social insurance.

The main purpose of this Report, then, is to present the main support/supplementation options flowing from the "second family of approaches" referred to above. In *Part II* the basic building blocks common to virtually all the options are introduced and examined. Also included in *Part II* is the review, also mentioned above, of the basic interrelationships with other programmes. *Part III* contains the descriptions (and examination in terms of structure) of the basic options. *Part IV* then attempts a "first pass" at the overall costs that would be associated with each basic option and includes estimates for a limited variety of design structures.

The evaluation of options is admittedly incomplete. Much more can and will be done; the work to be pursued is suggested at various points in the Report. In spite of the obvious possibilities for more information, however, the Report concludes — in *Part V* — by asking the Continuing Committee whether they would consider it appropriate to invite Ministers to further narrow down the number of choices. The surviving, or preferred, options would then be subjected to further refinement and more intensive evaluation. As will be apparent from the exposition to follow, the choices need not be confined *literally* to the "options" as they have been constructed in this Report. Further refinements could encompass *elements* of various options in somewhat different combinations. However, it is hoped that the present structure of options

will highlight the essential or basic differences (and similarities) and permit some basic choices to be made.

B. INCOME MAINTENANCE OBJECTIVES

The Ministers have already accepted that the primary goals of the income maintenance system should be:

1. to guarantee every individual or family adequate income in relation to community standards;
2. to minimize hardships resulting from sudden changes in income, by protecting the continuity of income in the face of broadly shared risks;
3. to encourage people to improve their social and economic position.

It was recognized that the full achievement of the above goals will not depend solely on the income maintenance programmes, as the income maintenance system is only *part* of the total set of economic and social policies designed to reduce the extent of income inadequacy and further the social security of Canadians. Such a system cannot reasonably be expected to compensate for weaknesses in the social and economic structure or to obviate the need to adapt overall economic and social policies to changing needs in other sectors. The essential features of the three basic goals may be restated briefly as follows:

1. *To guarantee every individual or family adequate income in relation to community standards*

This fundamental objective explicitly and directly addresses the problem of poverty. Specification of this objective in concrete terms leads to the problem of determining what is "adequacy". As has been pointed out in much of the literature on poverty, the definition of "adequacy" can be approached in two ways. It can be viewed as an *absolute* standard, i.e. a subsistence level or a vital minimum corresponding to the value of goods and services essential to human survival. Such a level would rise only with an increase in the cost of living. Adequacy can also be viewed as a *relative* standard where it is tied to the community's general wealth and on its growth over time. Such a level might then be adjusted according to the growth of the population's general well-being, as measured, for example, by the average or median income in the relevant community. This (relative) approach, implying that society's socio-economic progress should be shared by all citizens and that this progress must be taken into account when determining adequacy levels, is closely related to the broader concepts of income redistribution and is viewed by many critics of the current system as the more appropriate guide for identifying "adequacy". A further important question for decision in this review is the relevancy of national, provincial and community standards in identifying adequacy, whether this is done absolutely or relatively.

This first goal of the income maintenance system also implies that eligibility for benefits should be based on standardized criteria for identifying needs, so as to eliminate arbitrary administrative decisions and injustice to beneficiaries. Individuals or families in identical circumstances should, whenever possible, be given identical treatment under all income security programmes.

2. *To minimize hardships resulting from sudden changes in income, by protecting the continuity of income in the face of broadly shared risks*

This goal recognizes the existence of an important income security problem, even for those whose incomes may normally (or over a long period of time) be adequate. Risks of unemployment, sickness, and disability and the necessity of providing for retirement are obviously shared by most Canadians. For many, the occurrence of such events as well as the death of one of the adult members of a family would create major losses of income and would force abrupt adjustments in their standard of living. The possibility of such events is troublesome to all individuals and families; the materialization of those events often creates real and immediate hardships.

While it is consistent with the basic value of independence that individuals should provide, as far as possible, for their own security through private savings, insurance, etc., it is widely recognized that for many Canadians such provisions will be incomplete or inadequate. Therefore, it is accepted that governments should facilitate the pursuit of this objective by creating social insurance programmes which involve a broadly-based sharing of risks and a convenient and simple mechanism for savings, as a means to provide for basic protection or continuity of income.

This basic objective is clearly interdependent with the other two. To the extent that incomes are protected from falling below minimum adequate levels, this prevents an increase in the incidence of poverty and reduces the burden on other parts of the income maintenance system. Similarly, to the extent that people are aided in preserving regular or normal incomes at or above adequate levels, their social and economic independence is preserved.

While noting the interdependence of this second goal with the other two, and recognizing its preventative aspect vis-à-vis the support/supplementation system, it must be stressed that support/supplementation schemes themselves are (or should be) more directly related to the other two goals, that is, "adequacy of income" and "improvement of social and economic position".

3. To encourage people to improve their social and economic position

The income maintenance system should aim at increasing the chances and incentives for self-improvement and independence among disadvantaged Canadians. This means that the *income maintenance* system must be so designed that:

a) people should not be encouraged to leave the labour market to improve their financial position;

b) people should not be inhibited from returning to the labour market, regardless of the circumstances that motivated their complete or partial withdrawal from it: this means that the income maintenance system must avoid financial disincentives and, to the extent possible, provide for significant "reward" from working;

c) people have freedom of choice and can utilize income derived from income maintenance programmes to their best advantage, according to their own circumstances and needs.

It is recognized that income maintenance schemes cannot, *by themselves,* do more than *contribute* to the achievement of this major goal. The income maintenance system is therefore seen to be complementary to, and *not* a replacement for, appropriate employment and social services, manpower policies, and other policies that affect the expansion or creation of employment opportunities, improvements in working conditions and other related matters. A well

designed *employment strategy* is probably of equal or greater importance (than the income maintenance approach) in addressing the goal of "encouraging people to improve their . . . position", or, further, of assisting people to achieve self-dependence. The strategy of seeking to provide adequate income through employment remains the *primary* strategy in the pursuit of this major goal. Income maintenance policies should therefore be designed to complement, *or at least not to impede,* these other efforts.

C. DEFICIENCIES IN THE PRESENT SYSTEM

The problems or deficiencies in the present income maintenance system have been well documented. At this point, it is useful to present only a brief summary of those which any reformed income support/supplementation system would seek to alleviate.

1. General Issues

There is presently a lack of adequate coordination between the various elements or programmes in the total income maintenance system and even between those that provide only income assistance or support. There is, in fact, a maze of programmes and authorities responsible for income maintenance, which is often confusing to the general public as well as the potential beneficiaries. At the federal level there are the Departments of National Health and Welfare and Manpower and Immigration and also the Unemployment Insurance Commission. At the provincial level there are the Provincial Departments of Social Development, Workmen's Compensation Boards, and sometimes manpower and training departments. At the municipal level there are the municipal welfare offices and many voluntary agencies. The field offices of these agencies are rarely located together, even at one level of government, let alone *across* governments. Thus, beneficiaries can often face confusion and frustration in seeking help. The various benefit structures often operate on quite different bases, with different rules, and with different administrative practices. This has not only created overlaps and inequities in overall programme *structures* (and this is mentioned specifically below), but has naturally impeded efforts to coordinate information flows and administrative practices at the staff level.

Levels of benefits provided under income maintenance programmes and the structures and administrative techniques for delivering support/supplementation can vary both between provinces and within provinces. This means that persons with similar needs are treated differently even within a province as well as from province to province. These variations reflect different eligibility criteria, work incentives and transferability provisions. To some extent, variations may be appropriate as they may reflect both regional differences and differences in goals, target groups, etc. However, many of these variations are the product of an *ad hoc* series of independent policy actions and the results may not properly reflect the mix of goals that are now considered important. This raises the critical question of the degree of national consistency (that is, the compromise between national standardization and regional or local flexibility) which Ministers and the public will find desirable.

There is not only lack of coordination and/or harmonization between the

various components of the income maintenance system itself, but also between this system and other programmes that are either closely related or that necessarily interact with the income maintenance programmes. The personal income tax and income-related housing or day-care subsidies, for example, all involve design characteristics and coverage (of individuals and families) that overlap with the income maintenance system. These interactions can interfere in the operations or effectiveness of any particular programme and/or can create cumulative effects in ways that often seem inconsistent, complicated or even self-defeating. A person may simultaneously have access to various types of cash payments and in-kind services under different eligibility rules and benefit levels; or, the legitimate receipt of one type of benefit could unintentionally cause the withdrawal of others.

Putting the issue somewhat more concretely, the social security system provides a number of in-kind benefits which are either needs-tested or income-tested. Most social assistance schemes provide health benefits, legal aid, etc., on a needs-tested basis (under special needs and in some cases under regular needs) while some broader programmes supply income-tested benefits such as housing subsidies and day-care. These in-kind services tend to increase considerably the real value of assistance accruing to recipients. This stacking of financial assistance and in-kind benefits creates inequities among assistance recipients as well as between these recipients and the working poor. It also creates disincentives to work: getting and holding a job may mean losing cash assistance *and* in-kind benefits worth more than the gains from working.

The manpower system, independent of the income maintenance system, also provides income security through manpower training allowances. These allowances can serve as a substitute for unemployment insurance or social assistance. Related to family size, the benefits are higher than those of social assistance or employment at the minimum wage in some provinces and they carry with them access to various employment services not previously available to welfare recipients.

That there is an absence of harmonization between the income maintenance and the positive income tax systems will be seen as an important problem for the various proposals developed later in this Report. As matters now stand, the positive income tax system collects taxes at income levels considered to be below basic needs levels, for various family configurations. Thus, the levels of support in most provinces are higher than personal income tax exemptions. Support payments are (appropriately) *not* subject to income taxation, but equivalent levels of earned income are taxed. Workmen's Compensation benefits are typically taken into account in determining social assistance requirements, but they are not subject to income taxation. These kinds of differences can create inequities between the "assisted" poor and the "working" poor and/or they can reinforce work disincentives.

2. Issues Relating to Current Social Assistance

For recipients of social assistance there is often little or no incentive to get off social assistance. Many families need (and receive) more income from social assistance than they could earn from full-time employment. There are no or very low-level earnings exemptions; reduction or tax-back rates on earned income are very high — in some cases close to or at 100 percent — so that a dollar earned brings nearly a one dollar reduction in allowance. Even if

the explicit rate is less than 100 percent, a combination of the reduction rate plus a personal income tax rate may wipe out completely any financial benefit derived from work. This possibility is further aggravated when one recognizes the existence of work-related costs *and* the fact that beneficiaries may lose access to various benefits-in-kind such as comprehensive (subsidized) health coverage, drug assistance, dental care, legal aid, etc.

For a social assistance recipient, even if returning to work *does* mean a net increase in income, it will also mean increased contributions or reduced subsidies for benefits or services received under income-tested or earnings-tested programmes such as day-care or housing. If, in spite of these problems, a recipient "leaves assistance" for a job, he or she might face difficult (or lengthy) reinstatement procedures if the job does not last and assistance is again required.

Clearly, then, social assistance in its present form provides recipients with both financial and nonfinancial security which adds up to reducing or eliminating incentives to escape from welfare. This is the essence of what is often referred to as the "welfare trap".

Finally, it should be noted that social assistance programmes do not succeed in reaching all of the nonworking poor, or all of those with little or no earnings, even though they may be legally entitled to assistance. Because of the stigma attached to social assistance (associated on the one hand with the discretionary powers held by local welfare authorities and, on the other, with the public perception of persons "living off welfare"), many persons prefer to live in dire poverty than to apply for assistance.

3. Issues Relating to the Working Poor

The reasons (noted above) that impede or inhibit the incentives of social assistance recipients to seek employment reappear as inequities to those who do manage to cling to low-paying jobs. While the drive to maintain a self-dependent status (and stay free of the welfare system) may be very strong, the struggle must often seem frustrating in the extreme.

The working poor, who are typically not eligible for or in practice have not received assistance, may indeed earn less than the amount available to those who receive assistance. Moreover, they may pay taxes on some of their incomes while social assistance benefits are not taxable. They will typically have to make social insurance contributions and they may be denied the various benefits-in-kind or special subsidies available to social assistance recipients. And, of course, they incur "work-related" expenses, which reduce the income available to meet basic needs.

Growing recognition of the above kinds of inequities, coupled with the general desire to improve the circumstances of *all* those at very low income levels, has stimulated considerable interest in achieving welfare reform in ways that would reduce (or eliminate) the disparities in treatment between those working and those without work. Further, such reform would seek to improve the incentive features (or at least remove some obvious disincentives) that are built into the income maintenance system. Thus, improvements in the circumstances of low-income Canadians — whether by tax reductions, income maintenance benefits, or both — should be achieved in ways that *avoid* (rather than invite) deterioration in work effort. Even if the questions of *equity* (as between the treatments of the working versus the nonworking poor) had not automati-

cally created a compelling case for restructuring of the income maintenance system, the growing dangers of *disincentives* in the structure as it has developed would have provided sufficient reason.

D. STATISTICAL CONTEXT FOR POLICY CHOICES

The programme options that are presented in subsequent sections of this Report all attempt to address the above deficiencies, although each one has somewhat different emphases or characteristics. Most of the "deficiencies" outlined imply "solutions" via changes in programme design (or structure), coverage, or administrative techniques. Indeed, the programme options are first presented and examined in terms of their design characteristics.

It is recognized from the outset that alternative designs may imply different total costs and will likely imply a different distribution of benefits across income classes, types of families, and so on. Thus, the size of the population "at risk", and its basic characteristics, are obviously important factors (along *with* the structural and other problems mentioned above) in assessing the *need* for reform and in developing views regarding the acceptability of reform. It was thought appropriate to conclude this introductory part of the Report with some broad statistical material relating to the low-income population itself and to the magnitude (and array) of current programmes directly affecting the poor.

As a benchmark against which to examine subsequent data for the low-income population, *Table 1* provides a summary breakdown of the *total* Canadian population, as estimated for 1974. For example, there are 2.415 million people, in 1.544 million "families", where any member of the family is over 65 years of age. This population in "older family units" constitutes 10.9 percent of Canada's total population.[1]

The "Young" families, as defined in *Table 1*, constitute the bulk of the total population and, as will be pointed out in the examination of support/supplementation options, become the primary focus of attention for those options. The large majority (over 70 percent) of all Canadians live in families with children; the children themselves constitute almost 40 percent of the population (35.3 percent plus 3.6 percent in *Table 1*)[2]. More detailed break-downs of the population data are of course available, but the broad configuration shown may be sufficient as an introduction.

In order to move from the total population to the "population at risk", or the target population, for an income support/supplementation system, one looks to the lower end of the income scale. An obvious procedure is to enumerate families by income class and then examine those below some low-income

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1. *Families are identified here, and for subsequent statistical analysis, according to the age of the members of the family. The term "older" is somewhat of a misnomer of course, since* Table 1 *also shows that 559 thousand of this "population" live in families with dependent children (who may be over 18, but not many are likely* themselves *to be over 65).*
2. *It should be noted that "children" are defined in the data base essentially to include all unmarried children living with their parents. Thus, the total number shown would significantly exceed the population (those under 18) eligible for family allowances.*

Table 1

Distribution of Total Population

BY TYPE OF FAMILY
ESTIMATES FOR 1974

Family Type	Number of Family Units		Total Population	
	No. ('000)	%	No. ('000)	%
ANY MEMBER AGED 65 AND OVER:				
1. Unattached Individuals	827	10.0	827	3.7
2. Couples	514	6.2	1,028	4.6
3. Families with Children	203	2.5	559	2.5
4. SUB-TOTAL, "Older Family Units"	1,544	18.7	2,415	10.9
ALL MEMBERS AGED UNDER 65:				
5. Unattached Individuals	1,902	23.0	1,902	8.6
6. Couples	1,134	13.7	2,268	10.2
7. Single-parent Families	372	4.5	1,161	5.2
(of which children are . . .)	—	—	(789)	(3.6)
8. Two-parent Families	3,311	40.1	14,470	65.1
(children)	—	—	(7,848)	(35.3)
9. SUB-TOTAL, "Young Family Units"	6,719	81.3	19,801	89.1
10. TOTAL, ALL FAMILIES	8,264	100.0	22,216	100.0

cut-off. *Table 2* does this, in the simplest way, by counting the number of families, by type, whose incomes (estimated for 1974) fall below three arbitrary (annual) levels: $5,000; $6,000; and $7,000.

In *Table 2* families are enumerated in terms of their private incomes only. No government transfers are counted. Thus, one has a crude measure of what the low-income population would look like "without government assistance". The elderly would constitute a very *much higher* proportion of the low-income families (41 percent if one took the $5,000 case) than they do of family units overall, (18.7 percent per *Table 1),* if there were no income maintenance programmes to assist them. Again, comparing *Table 2* with *Table 1* (second column), one can see that single individuals and single-parent families constitute a larger number of families, while two-parent families are highly *under represented* at the lower-income levels.

Table 2

Distribution of Families below specified (fixed) Income Levels

ESTIMATES FOR 1974

Family Type	Number and Percentages of Family Units with Private Incomes below:*					
	$5,000		$6,000		$7,000	
	No. ('000)	%	No. ('000)	%	No. ('000)	%
1. "Older Family Units" (of *all* types) (Any member aged 65 and over)	1,186	41.0	1,239	38.0	1,289	35.2
2. "Young Family Units" (All members aged under 65)						
a. Individuals	1,003	34.6	1,142	35.0	1,277	35.0
b. Couples	154	5.3	196	6.0	243	6.7
c. Single-parent Families	202	7.0	221	6.8	245	6.7
d. Two-parent Families	352	12.2	460	14.1	604	16.5
SUB-TOTAL — All Young Families	1,712	59.1	2,018	62.0	2,368	64.8
3. TOTAL, ALL FAMILIES	2,898	100.0	3,257	100.0	3,657	100.0

* *Private Income includes all "normal" income (for the total family) such as earnings, investment income, private annuities or pensions, etc. It excludes any income from government transfer payment or related programmes (i.e. Social Assistance, Familly Allowances, OAS/GIS, VIC, CPP/QPP, etc.).*

Note: Items may not add precisely to totals, due to rounding.

While the above data have a useful (introductory) purpose, they should *not* be taken as appropriate measures of income insufficiency or "poverty". This would be misleading, quite apart from the obvious fact that income status is measured without taking current governmental assistance into account. It is clearly recognized that "needs", "basic income requirements", "poverty levels", or any such concept that seeks to identify appropriate standards against which to measure income conditions (or to develop programme guidelines) *must be adjusted for family size*. Whether one can meet basic expenditure requirements, or whether one requires assistance, is obviously a function of family size (at least); so-called "poverty lines" or "low-income cut-offs" lines almost always involve higher levels for larger families.

One such set of measures was contained in *Poverty in Canada*, the Report of the special senate committee on poverty, and an assessment of the distribution of incomes in Canada based on their updated "poverty lines" is shown in *Table 3*. When this (appropriate) adjustment is made, so that large families are counted as "poor" against a higher benchmark than those for an individual or couple, the profile of the low-income population becomes more useful for the specification and analysis of income maintenance objectives.[1]

Table 3 indicates that, while the broad categories of "young" versus "older" family units *who are "poor"* remain divided roughly as in *Table 2* (i.e., around 60 percent and 40 percent, respectively), the more detailed distributions change. Thus, *Table 3* suggests that 25.2 percent (rather than 34.6 percent) of poor family units consist of *individuals* under 65, while two-parent families (with all members under 65) make up 23.6 percent (rather than 12.2 percent) of all poor families.

The second set of figures (the 3rd and 4th columns) in *Table 3*, illustrates that fully one-half of poor *people* live in two-parent families and that the children in single- and two-parent families constitute some 37.2 percent (7.4 plus 29.8) of all poor people, not counting those children in families with any members over 65. For family units "under 65" (per the last two columns of the *Table*), 65.8 percent of these "younger" poor are in two-parent families, 14.0 percent are in single-parent families, and only 14.2 percent are single individuals.

Finally, the center block of figures in *Table 3* — those entitled "Incidence of Poverty" — indicate what proportion *of each type of family* would be judged poor by the updated Senate Committee standards (and, again, in the absence of income maintenance programmes). Thus, 36.0 percent of *all* family units would be poor, but only 14.1 percent of all couples (under 65) would be in poverty. The aged group is an obvious priority "target group" and, of course, governments have responded to that challenge. Single-parent families, 60.2 percent of which would be poor without government help, are another group whose position is obviously vulnerable, even though they themselves do not make up a large proportion (10.6 percent) of the poor population as a whole. That the proportion of single-parent families on social assistance rolls is significant (and growing) is perhaps not surprising in light of these data.

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1. The Senate Committee poverty line figures updated to 1974 for families of size 1, 2, 3, 4 and 5, respectively, are: $3,100; $5,130; $6,145; $7,200 and $8,200. Additional persons in a family "add" approximately $1,000 (per person) to these benchmarks.

Table 3 Distribution of population below Senate Committee Poverty Lines
BY TYPE OF FAMILY, 1974

Family Type	Numbers with Private Incomes Below Poverty Lines				*INCIDENCE* of Poverty, By Family Type*		Percentage Distribution of Poverty Population for "Young Family Units" *ONLY*	
	Family Units		Persons		Family Units	Persons	Family Units	Persons
	No. ('000)	%	No. ('000)	%	%	%	%	%
ANY MEMBER AGED 65 AND OVER:								
1. Unattached Individuals	700	23.5	700	10.0	84.6	84.6		
2. Couples	349	11.7	698	10.0	67.9	67.9		
3. Families with Children	95	3.2	279	4.0	46.8	50.0		
4. SUB-TOTAL, "OLDER FAMILY UNITS"	1,144	38.4	1,677	24.1	74.1	69.4		
ALL MEMBERS AGED UNDER 65:								
5. Unattached Individuals	752	25.2	752	10.8	39.5	39.5	40.9	14.2
6. Couples	159	5.3	319	4.6	14.1	14.1	8.7	6.0
7. Single-parent Families	224	7.5	742	10.6	60.2	63.9	12.2	14.0
(of which children . . .)	—	—	(518)	(7.4)	—	(65.7)	—	(9.8)
8. Two-parent Families	702	23.6	3,483	50.0	21.2	24.1	38.2	65.8
(children . . .)	—	—	(2,079)	(29.8)	—	(26.5)	—	(39.3)
9. SUB-TOTAL, 'YOUNG FAMILY UNITS"	1,837	61.6	5,296	76.0	27.3	26.7	100.0	100.0
10. TOTAL, ALL FAMILIES	2,981	100.0	6,973	100.0	36.0	31.3		

* *Percentages shown are the numbers (per the 1st and 3rd columns) divided by the appropriate total population figures in* Table 1, *multiplied by 100.*

These kinds of data can clearly be further refined. Alternative sets of benchmarks can be used; more detailed breakdowns (e.g., by age and other characteristics) can be displayed; and regional distributions can be developed. It is also useful to add up the *amounts* by which families fall short of the various benchmark or "poverty" measures. Estimates of the *extent* of income deficiencies, or the so-called "poverty gap", by kinds of families as well as in total, can provide important additional indicators as to the size and distribution of the target problem. Work is proceeding to develop the statistical analysis along all these lines.(1)

The data presented to this point have suggested that widespread poverty would clearly exist in the absence of very large governmental efforts to prevent or alleviate it. It is recognized, of course, that a great deal is being done, and obviously the incidence of poverty *is* considerably reduced as a result of those efforts. On the other hand, many deficiencies remain (as outlined earlier) and considerable income deprivation still persists despite current programmes. A more complete analysis of the "before" and "after" effects of current programmes than has been possible to date is required. This work is also being pursued by the Working Party, and it will become particularly important for more precise estimates of the costs of options, and for more refined evaluation of programme designs.

For the moment, only a summary view of current programme magnitudes is offered, just as the picture provided of the problem "before government programmes" was only an introduction. *Table 4* outlines the major income maintenance (and related) expenditures and shows that over $11 billions are currently being spent, by all levels of government, in ways that would affect the lower-income groups. The programmes for the aged clearly meet a large part of the poverty problem for that group, and one would expect that the other expenditures might achieve a similarly significant impact on younger low-income families.

At first blush, it may appear that governments should already be "meeting" the poverty problem, since the total income maintenance expenditures appear to be higher than the rough estimate of the "private" poverty gap of $5.5 billions for the under-65 groups. There are reasons, however, why this conclusion would be faulty.

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1. *A first attempt to assess the total "gap" or income shortfall between private (normal) incomes and the updated Senate poverty lines yielded the following results for* "Young Family Units":

Family Type	Total Income Deficiency ($ millions)
Unattached Individuals	*$1,642*
Couples	*417*
Single-parent Families	*1,064*
Two-parent Families	*2,377*
Total	*$5,500*

This suggests that the extent *of poverty (in 1974 and in the absence of income maintenance programmes) would have been $5.5 billion,* excluding *the aged. This was the amount by which those families represented in lines 5 through 9 of* Table 3 *fell short of meeting their own income requirements, as measured by the Senate standards.*

First, the primary policy objective to be pursued directly by support and supplementation programmes — i.e. to alleviate poverty and assure an adequate, secure income base — is only one of several important income maintenance objectives. (These were reviewed in Section B above). Therefore, many of the expenditures address problems beyond poverty *per se,* and many of the dollar outlays go to those who would not be in poverty in any case (at least on a *family* basis), or raise family incomes *beyond* poverty levels. Thus unemployment benefits will not all be "filling family poverty gaps": some benefits will go to individuals whose *families* are not poor. Family allowances are paid on behalf of *all* children, while roughly 30 percent may be living in "poor" families (per Tables 1 and 3). Similarly, not all OAS pensions, Veterans pensions, and so on, are required *to reduce poverty.* These programmes may well have their own legitimate purposes, either related to the other goals of the overall income maintenance (and taxation) systems, or to quite separate objectives. To the extent that this is true, and they are structured and administered efficiently and effectively, then one should *expect* only a portion of the total expenditures to relate directly to poverty reduction.

A *second* reason why expenditures might equal (or even *exceed)* any specific measure of income deficiencies, and yet poverty might continue to exist, has to do with the structure of income support and supplementation programmes themselves. Some degree of "efficiency" in the sense of filling the poverty gap might have to be sacrificed in order to build appropriate incentives into the programmes. These issues will be raised and examined later in the Report.

A third reason for continued "poverty", in spite of programmes that are *directly* focussed on that problem, has to do with the adequacy of benefits built into such programmes, *in relation to* appropriate community standards and also, of course, with incomplete coverage due to eligibility restrictions. Tables 5 and 6 display the *general* levels of income support that are provided by provincial social assistance schemes. These data must be interpreted carefully; current provincial systems are needs tested so the actual benefits available differs from family to family.[1] The point is that even those who qualify for social assistance are not brought to levels that some would regard as adequate or sufficient. The levels illustrated in Tables 5 and 6 are well below the

1. *Any summary of provincial social assistance levels, at any point of time, must be interpreted cautiously for a number of reasons. First, as mentioned above, the actual benefits available to each family can vary according to their specific needs. The rent, fuel and utilities component is the one most likely to experience considerable variation. In Tables 5 and 6, it was necessary to assume an average allowance for shelter, fuel and utilities; both tables include a rent, fuel and utilities allowance of $70. for unattached individuals and $100. for all family units. Clearly this assumption eliminates much of the variation that exists across the provincial standards. Second, since the provincial budget standards are changed periodically, a measure at any point of time can misrepresent somewhat any province's "normal" level relative to the Canadian average. New Brunswick, for example, revised their budget standards considerably between the July, 1974 and January, 1975 estimates provided in Tables 5 and 6. Which estimate is a better representation of New Brunswick's "normal" position? Third, the budget standards presented are to meet basic needs such as food, clothing, household and personal care, fuel, utilities and shelter. These basic budgets can be supplemented to meet special or exceptional needs. The extent of the use of special needs allowances also varies considerably across the provinces.*

updated Senate poverty levels, for example, and indeed are generally below most low-income standards or benchmarks that have received public attention. While such benchmarks are often arbitrary, they *can* serve (at least) as a basis for evaluating the *relative* merits of current and proposed policies or programmes. It is likely impossible, of course, to ever find a support level that is considered adequate by everyone, since adequacy is a normative concept.

Since the questions of "adequacy" with respect to programme levels has been raised, it should be noted that the specification of potential programme designs and costs will require the use of prototype benefit levels. This issue is raised again in the appropriate sections to follow. However, it may be useful to finish this section on the statistical context for policy choices by reviewing the range of levels that are either in existence (in current programmes) or are often discussed as benchmarks for measuring "adequacy" of income levels. *Tables 5 and 6* gave a picture of provincial assistance levels by type and size of family, while *Tables 7 and 8* survey a variety of measures, for a prototype family (of four). The range is obviously very wide — between $3,815 and $7,200 for the July, 1974 measures — and includes actual programme levels, prescribed income "targets" (poverty lines), and some actual earnings measures. Presumably new, or reformed, programmes would seek to provide support, or supplement incomes, within (or near) the range encompassed by these various measures.

Table 4

Governmental Cash Outlays on Main Income Maintenance and Related Programmes

ESTIMATES FOR FISCAL YEAR 1974-75*
(Figures in Millions of Dollars)

A. Programmes Primarily Directed Toward the Aged: (a)		
• Old Age Security	$2,480	
• Guaranteed Income Supplement	950(b)	
• CPP/QPP Retirement Pensions	250	
Sub-total		$3,680
B. Programmes Primarily Directed Toward Those Under 65:		
• Provincial Social Assistance:		
General Assistance (shared under the Canada Assistance Plan)(a)	$1,220	
Miscellaneous assistance programs under C.A.P(c)	760	
• Federal Family Allowances	1,780	
• Quebec Family Allowances	95	
• Workmen's Compensation	400	
• Unemployment Insurance	2,250	
• CPP/QPP Survivors, Disability benefits	300	
Sub-total		$ 6,805
C. Other Related Programmes:		
• Manpower Training Allowances (and related)	$ 240	
• Veterans Pensions and Allowances	470	
• Student Loans	110	
• Housing Subsidies .... estimate not available(d)		
• Assistance to Native Peoples	90	
Sub-total		$ 910
TOTAL, ALL DIRECT TRANSFER PAYMENTS AND RELATED PROGRAMME EXPENDITURES		$11,395

* *These are approximate figures and not official estimates of the agencies involved.*

(a) *Clearly some programmes overlap this age distinction. Thus, a sizeable amount of the Provincial Social Assistance payments (and services) flow to the aged, as does some of the CPP/QPP survivors and disability payments.*

(b) *The value of related provincial programmes like Mincome and GAINS has not been included here.*

(c) *These include Homes for special care, child welfare, and various health and welfare services for those in need.*

(d) *The form of housing subsidies makes their comparable value difficult to calculate at this stage.*

Table 5

Social Assistance Levels

ANNUAL BASIC BUDGET STANDARDS BY PROVINCE AND TYPE OF FAMILY,

JULY 1974

(Based on Assumed Rent, Fuel and Utilities, Family Allowances Included)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	CANADA*
Unattached Individuals	2220	1692	1586	1920	2124	1860	1656	1800	1836	1860	1855
Couple	3240	2676	2570	3060	3396	2976	2743	2880	3060	3000	2960
1 parent, 2 children	3660	3372	3388	3156	3600	3624	3171	3420	3180	3900	3447
1 parent, 4 children	4500	5160	4284	3876	4548	5004	4849	4740	4584	5280	4683
2 parents, 2 children	4080	4068	3834	3780	4224	4200	3831	4140	3936	4320	4041
2 parents, 4 children	4920	5820	4608	4500	5232	5556	5219	5460	5400	5700	5241

* *Unweighted average of the ten provincial figures; for reference purposes only.*

Table 6

ANNUAL BASIC BUDGET STANDARDS BY PROVINCE AND TYPE OF FAMILY,

JANUARY, 1975

(Based on Assumed Rent, Fuel and Utilities, Family Allowances Included)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	CANADA*
Unattached Individuals	2436	1776	1661	2460	2340	2040	1806	1980	1836	1860	2008
Couple	3540	2820	2705	3672	3744	3312	3026	3120	3060	3000	3199
1 parent, 2 children	4010	3590	3612	3876	3994	4010	3504	3900	3214	3950	3752
1 parent, 4 children	4948	5560	5140	4668	5094	5476	4905	5340	4667	5380	5105
2 parents, 2 children	4478	4358	4130	4464	4774	4682	4292	4680	3970	4370	4419
2 parents, 4 children	5416	6292	5536	5266	5874	6136	5713	6120	5483	5800	5763

* *Unweighted average of the ten provincial figures; for reference purposes only.*

Table 7

Summary of Low Income Measures

FOR TWO-ADULT, TWO-CHILD FAMILY
ESTIMATED FOR JULY, 1974

A. SOCIAL ASSISTANCE MEASURE B. LABOUR MARKET MEASURE C. INCOME STANDARD MEASURE	Annual Values
A. Average of Three Lowest Estimated Provincial Social Assistance Rates (as Table 5) and Average Federal Family Allowance	$3,815
C. Tax Threshold on Net Income for Provincial Income Taxes in Provinces with Tax Collection Agreements	3,938
A. Estimated Social Assistance, National Unweighted Average and Average Federal Family Allowance (as Table 5)	4,041
B. 50% of Average Earnings in manufacturing and Average Federal Family Allowance	4,550
C. Tax Threshold on Net Income for Federal Income Taxes (including 5% tax reduction)	4,671
C. National Average Minimum Wage (Unweighted) and Average Federal Family Allowance (assuming 2,000 hours worked per year at $2.11 per hour)	4,700
A. Social Assistance, Manitoba 80th Percentile (estimated from 1973 data) and Average Federal Family Allowance	4,800
C. Federal Minimum Wage and Average Federal Family Allowance (assuming 2,000 hours worked at $2.20 per hour)	4,880
C. Maximum OAS/GIS Support Level and Average Federal Family Allowance	4,880
A. Maximum Social Assistance, British Columbia and Average Federal Family Allowance	4,920
C. Senate Committee Support Level	5,040
A. Social Assistance, Alberta 80th Percentile (estimated from 1973 data) and Average Federal Family Allowance	5,400
C. British Columbia Minimum Wage and Average Federal Family Allowance (assuming 2,000 hours worked at $2.50 per hour)	5,480
C. Tax Threshold on Net Income for Provincial Income Taxes in Quebec ($5,200) and Weighted Average of Federal and Quebec Family Allowance ($484) — not taxable in Quebec	5,684
C. Statistics Canada Low Income Line	5,826
B. 50% National Median Income	6,505
C. Senate Committee Poverty Line	7,200

Table 8

Summary of Low Income Measures*

FOR TWO-ADULT, TWO-CHILD FAMILY
ESTIMATED FOR JANUARY, 1975

A. SOCIAL ASSISTANCE MEASURE B. LABOUR MARKET MEASURE C. INCOME STANDARD MEASURE	Annual Values
A. Average of Three Lowest Estimated Provincial Social Assistance Rates (as Table 6) and Average Federal Family Allowance	$4,130
C. Tax Threshold on Net Income for Provincial Income Taxes in Provinces with Tax Collection Agreements	4,326
A. Estimated Social Assistance, National Unweighted Average and Average Federal Family Allowance (as Table 6)	4,419
C. Federal Minimum Wage and Average Federal Family Allowance (assuming 2,000 hours worked at $2.20 per hour)	4,930
C. National Average Minimum Wage (unweighted) and Average Federal Family Allowance (assuming 2,000 hours worked at $2.25 per hour)	5,030
C. Maximum OAS/GIS Support Level and Average Federal Family Allowance	5,206
C. British Columbia Minimum Wage and Average Federal Family Allowance (assuming 2,000 hours worked per year at $2.50 per hour)	5,530
C. Tax Threshold on Net Income for Federal Income Taxes (including 5% tax reduction)	5,721

* *The January, 1975 table only includes those measures on which there is accurate information. Measures that have been updated for several years or that were estimates have been excluded.*

II. Common Design Issues and Programme Interrelationships

A. BASIC DESIGN CHARACTERISTICS OF SUPPORT/SUPPLEMENTATION PROGRAMMES

All the income maintenance schemes currently under consideration involve a common set of basic design characteristics. The choices of these design characteristics for income support/supplementation programmes are critical. Even subtle variations in these choices can have a significant impact on the nature and costs of a programme and the degree to which its objectives are achieved. These characteristics are defined below and the implications of some basic choices are discussed.

1. Eligibility

These are the rules that determine who is permitted access to a programme. The main eligibility criteria currently in use are:

Age. This criterion is usually used to identify particular groups which are not expected by the community to fully support themselves by earning income. Age is an unambiguous concept and its administrative simplicity is appealing. Family Allowance, Old Age Security (OAS), the Guaranteed Income Supplement (GIS) and certain provincial supplementation programmes (e.g. Mincome in British Columbia) all use age as an eligibility criterion.

Disability. This criterion is used to identify groups which are less able to fully support themselves by earning income. Unlike the age criterion, however, disability can be an ambiguous concept. For example, under what circumstances does a prolonged ailment become a disability? For this reason, this criterion is more complex and would be more expensive to administer. Disability is used as an eligibility criterion for the Blind and Disabled Persons allowances, CPP/QPP Disability Pensions, and certain categories of support in provincial social assistance.

Income. Under most programmes, benefits are related to income: the more income a family has, the greater its ability to support itself and therefore the less assistance it needs. Thus, only families with incomes less than specified levels are eligible for benefits. Using income as an eligibility criterion can present many complex problems of equity and administration. These are discussed in the "Income Definition" section below. The Guaranteed Income Supplement is one example of the use of this approach.

Assets. Most social assistance programmes exclude families with certain assets in excess of specified levels on the grounds that they can be used by a family to support itself. Also, since income can often be converted into asset form, the inclusion of assets can be regarded as an implicit form of income averaging.

Residence. Such a criterion is used to restrict benefits to those who have "earned" them by past contributions to the relevant "community". This rationale, for example, has been associated with the 10-year residence (in Canada) requirement for the OAS/GIS programme. Also, within certain provinces some programmes have provincial or local residence requirements.

Employability. Potential employability — that is, personal ability to earn income, as opposed to actual income deficiency — is assessed in various ways in many social assistance programmes. Since potential employability is an ambiguous concept, it has been and would likely be necessary to substitute

proxy criteria, such as age, disability, location, education, and case-worker discretion, that may be less ambiguous. Persons judged to be potentially "employable", but not working, could be denied enrolment, or only entitled to lesser benefits. It has been noted that administrative guidelines with respect to definitions of employability are often vague, or even nonexistent, and thus a great deal of discretion exists. In some cases, the nonavailability of work also influences specific eligibility decisions.

Certain particular groups pose special eligibility problems. *Strikers,* for example, are not normally eligible for benefits under Unemployment Insurance and most social assistance programmes. Among the reasons often given are: (1) strikers are considered to have collectively "chosen" to reduce, temporarily, their income levels, and assume their own responsibility for providing for their needs during such periods; and (2) paying benefits to strikers would inappropriately alter the balance of power in labour negotiations. *Students* (particularly post-secondary students) are also often excluded from social assistance programmes; similar arguments are made, for example: (1) they have voluntarily chosen to alter their income patterns — i.e., little present income in "exchange" for higher potential income later, as a result of their increased education; or (2) they are considered to have remained as *part* of a larger family unit and are simply not eligible for full benefits as separate or "independent" individuals. In addition, there are assistance programmes specifically designed for students — for example, student loans, grants, and bursaries — that help fulfill income maintenance objectives in their case.

The choice of eligibility criteria for an income support/supplementation programme would be largely dependent upon the objectives of the programme; on the type of programme being established; and on the extent to which other specific programmes might be altered or replaced by a more general scheme of the kinds presented in *Part IV*.

2. Benefit Structure

The benefit structure refers to the level of maximum benefits (the basic guarantee) available to families under a programme, how these maxima are varied (by family size, or other circumstances), and the extent to which income from other sources affects actual benefit levels (i.e., actual payments).

Types of Basic Guarantees. The choice of the basic guarantee level is, perhaps, the single most important design choice. The basic guarantee should adequately provide for a family with no other sources of income. "Adequacy" however cannot be determined objectively or "scientifically". There are two main approaches:

a) The Absolute approach, which establishes the basic guarantee on the basis of the actual cost of a given "basket" of goods and services which are thought to be "necessary". The obvious problem is in determining *which* goods and services are necessary. For example, is a television set a necessary good? And, . . .

b) The Relative approach, which establishes the basic guarantee as a function of the community's average or median income. "Adequacy", in this case, is defined in relation to the community's well-being. The obvious problem is in determining *what* proportion of the community's income is necessary. For example, is 30, 40, 50 or 60 percent an appropriate proportion?

The choice of the basic guarantee would, in either case, be dependent upon community standards. It would also depend upon the type of programme being established. For example, if one element of the programme were intended only to supplement low wages, then basic guarantees that were not in themselves adequate would be acceptable *in that programme element*.

Variations in the Basic Guarantee. The basic guarantee should vary at least according to the number of persons in the family. It could also be adjusted according to the age of family members (e.g. lesser amount for children) and by such other criterion as location of residence (e.g. urban vs. rural).

The method selected for varying the basic guarantee according to family size and composition is important. As family size increases, so will the basic guarantee. Assuming the existence of economies of scale in consumption, the larger the family, then the smaller the appropriate amount of increase in the guarantee for each additional member. Providing smaller incremental amounts for each additional member has the potential for lower programme costs, when compared with the cost of using the same amount for each additional family member. However, as the additional amount for each successive family member becomes smaller, at some point there is an incentive for the family to "split" and form more than one support unit. Therefore, variations in the basic guarantees should, as much as possible, be neutral with respect to family splitting and/or formation, but should still seek to recognize economies of scale that exist within a family unit. In fact, any choice will involve some trade-offs between these factors.

Reduction Rate. In any income-tested programme, the actual benefits a family receives depend upon the amount of other income it has. The rates at which benefits decrease as family income increases are referred to as the reduction or "tax-back" rates. Assuming no changes in labour market behaviour, a lower reduction rate means higher programme costs than a higher reduction rate, given *the same basic guarantees levels*. The reasons for this are:

a) supplementation would extend over a broader income range, thereby increasing the number of persons covered; and
b) families already included (under a high reduction rate) would be entitled to greater benefits.

On the other hand, a high reduction rate on earned income could have serious work disincentive effects. For example, if benefits were reduced by one dollar for each dollar earned (as is the case under some current income maintenance programmes), a potential earner might be better off not working, especially after accounting for various work-related expenses. The problem is to strike a suitable trade-off between work-disincentive effects associated with high reduction rates on earned income and higher transfer costs associated with low reduction rates. It may be noted here that a "high-rate structure" might be *initially* less expensive than a low-rate structure, but the former would be more likely to "invite" reductions in work effort so that, in the longer term, the costs could rise *relative* to the latter structure.

In an income support/supplementation programme, it is not necessary to have the same reduction rate structure for *all* types (or sources) of other incomes. A high reduction rate (e.g. 100 percent) could be applied to those sources of income where disincentive effects are nonexistent, as is the case

with some other government transfers (Family Allowances, OAS/GIS, etc.), while earnings could be "taxed back" at a "partial" rate (50 percent or less is commonly mentioned) to maintain work incentives.

Another possibility (related to incentives) would be to have an exemption level on earnings so that the first $X of earned income would not be taken into account when computing actual benefits. This exemption would serve as an incentive for potential earners to re-enter the labour market and could be coupled with a higher reduction rate on earnings in excess of the exemption level. With this alternative, the family would still always be in a better financial position by working, but the *average* reduction rate on earnings would increase as earnings rose. Whether or not this alternative provides more or less incentive to work compared to a programme with no exemption and a lower (constant) marginal reduction rate depends upon whether work effort is influenced more by average or marginal wage rates. While the exemption approach might provide a greater incentive to initially enter the labour market, it might also give less incentive to increase earnings once working. This question of exemptions will have to be dealt with as options are further narrowed down and refined.

Apart from decisions as to the reduction rate that should be applied to earnings in an income support/supplementation system, there remains some doubt regarding the reduction rates (if any) that should be applied to other sources of income such as assets (if included in some way in the income base), gifts, inheritance, compensation awards, gambling gains, and social insurance benefits (see Programme Interrelationships, Section C below).

3. Support Unit Definition

The support unit (or "family") definition determines which individuals are to be included in the group to which eligibility rules may apply and to which payments are made. The addition of any individual to a support unit has two main effects: (1) the basic guarantee for the group would increase, and (2) any income the individual has would be added to the group's income, which in turn determines actual benefits. In the absence of a mandatory support unit definition, it is obvious that families would always exclude an individual from the unit if his/her income more than offset the benefits resulting from an increase in the basic guarantee. Such voluntary membership in the support unit would probably increase programme costs.

The support unit definition can vary in inclusiveness from:

a) any *individual,* along with any dependents with incomes (and/or ages) below some specified levels (as in the income tax system); to

b) a *nuclear family,* which would include single individuals, married couples, and parents with any children under 18 living in the same dwelling. (This concept is used in most social assistance programmes); to

c) a *census family,* which would embrace the above, but would also include in the family any children who have never married, *regardless* of age, and who are living in the same dwelling. (This is the concept used in the decennial census); to

d) an *economic family,* which would be broader again than the above, by including in the "family" *all* individuals sharing a dwelling who are

related by blood, marriage, or adoption, (e.g., including brothers or sisters, elderly parents, etc.); to

e) a *household,* which would include *all* persons sharing a common dwelling (e.g., including roomers and boarders, or all friends sharing an accommodation).

From the above examples, the relationship between the support unit definition and eligibility criteria is apparent. While eligibility criteria might define groups of people who are directly eligible to form a support unit, the support unit definition also stipulates which people are *indirectly* eligible for benefits as a member of a support unit. For example, a student may be denied direct (independent) eligibility under the eligibility regulations, but would be included in his/her parent's support unit under any of the above definitions (with the possible exception of an *individual* unit definition). The influence of the support unit definition and eligibility rules on programme costs and family behavior must, therefore, be viewed simultaneously. For example, a more inclusive (i.e., broader) support unit definition would avoid making payments to those with little or no income of their own, who, nevertheless, receive income by virtue of some family relationship, such as being the spouse of a high-income earner. On the other hand, a more inclusive support unit definition might give rise to incentives for the high-income individuals in the unit to "split" (in fact or fictitiously) so as to increase family benefits and, consequently, programme costs.

The support unit definition should not impose dependency relationships on a group of individuals where those relationships do not otherwise exist. For example, suppose a family has no income but has a relative with high income living with them. Under an *economic* family rule, the family would be presumed to be dependent upon the relative's resources, although this dependency may not, in fact, exist. Furthermore, depending on community values, it may be that the support unit definition should actually encourage independence in some cases. One may want to encourage the independence of, say, an aged parent living with a child and his/her family by allowing the aged parent to form a support unit of his/her own.

The problem is to devise a support unit ("family") definition which is consistent with the community's notion of family interdependence and dependence and which, at the same time, can be easily and fairly administered.

4. Income Definition

The actual benefits a family receives under most programmes (demogrants excepted) depend on the amount of income the family receives from "other sources". This makes the designation (definition) of these "other sources" particularly critical. (The analogy in the income tax system is the definition of its taxable income base). The definition of income for any support/supplementation programme has a substantial impact on both programme and administrative costs. The more comprehensive the income definition, the less expensive the programme, since more sources of income are taken into account to determine actual benefits. However, administrative costs would be higher and it will be more difficult to enforce.

The income definition for a support/supplementation programme can range from the current income tax definition to a fully comprehensive definition that includes all sources of income such as all transfers from governmental

programmes, income-in-kind (e.g. a company car or home-grown vegetables), the full value of capital gains (income tax includes only 50 percent of realized capital gains in its income definition) and an imputed income from real assets (such as land, jewellery and owner-occupied homes).

There are two separate issues of equity involved in defining an income base for income support/supplementation. First, a more comprehensive income definition for income support/supplementation (benefits recipients) than for income tax (taxpayers) could be regarded as being inequitable between taxpayers and benefits recipients. There would be some sources of income which would be considered non-taxable for taxpayers, but would be considered "taxable" for recipients in the support/supplementation programme. For this reason, it may be desirable to have an income definition for the support/supplementation programme similar to the income tax definition. Having similar definitions should also help to reduce the "stigma" associated with support/supplementation benefits. It should be noted, however, that the income tax definition has "built-in" incentives (mainly to save for retirement) which *may* not be applicable for an income support/supplementation programme.

As a second issue, the need for a comprehensive income definition in the support/supplementation programme could be justified on the grounds of equity among recipients. It would avoid paying benefits to families that do not have income from the conventional (as defined by income tax) sources but who *do* have incomes from other sources. For example, suppose the income tax definition is adopted for support/supplementation. Family A has $8,000 earned income. Family B has no earned income, but has $100,000 worth of land whose value is increasing at a rate of 8 percent each year. If Family B decides not to sell its land, it would have zero income and would receive full support, while Family A with $8,000 earned income might not receive any benefits. This would be both an inequity and a "leakage" of benefits to Family B, which obviously has sufficient resources to support itself. If income were imputed from assets, such as land, at a rate of 8 percent per annum, Family B's income for support/supplementation purposes would have been $8,000, the same as Family A's, and therefore Family B would not have received benefits. The burden of the argument in this case is that to ignore assets — and especially to ignore some and perhaps not others — leaves an equity problem, at least in social policy terms.

Once again, there will have to be compromises in settling on final guidelines and definitions for income in any new system. These compromises would reflect the conflicts — in *both* social security *and* tax systems — between equity and administrative complexities on the one hand, and the desirability of harmonization between those two systems on the other.

5. Accounting System

The accounting system describes the actual payment mechanism. There are four major components: the reporting period; the payment period; the accounting period; and the accountable period. Taking each in turn:

a) The *reporting* period is the period between (or frequency of) consecutive income reports;

b) The *payment* period is the period between consecutive payments;

c) The *accounting* period is the period over which income is counted and payments are adjusted;

d) The *accountable* period is the period over which total benefits and income are *reconciled* to determine underpayments or overpayments of total benefits. The accountable period is at least as long as the accounting period. If the accountable period is longer than the accounting period, a mechanism for paying out underpayments and recovering overpayments is required.

In the income tax system, the reporting, payment and accounting periods are usually the same as an employee's pay period; the accountable period is the calendar year. In most social assistance programmes, there is no *separate* accountable period, the accounting and accountable periods are one month, and the reporting and payment periods are half-months or months.

The choice of the accounting period is most critical. The accounting period should allow *responsiveness,* that is, it should be able to adjust benefits rapidly when changes in income occur. A programme which fails to provide benefits when they are needed and/or continues to provide benefits when they are no longer needed is not desirable. The accounting period should also serve to minimize the size of adjustments required at the end of the accountable period. The overpayment problem is particularly crucial for the poor, as repayment of large overpayments at the end of the accountable period would surely cause hardship for many families. But, if overpayments to families who are unable to repay their overpayments were "written off", programme costs would certainly be higher, many families would "find" reasons for not being able to repay their overpayments, and an equity problem would clearly emerge.

Accounting periods currently in use vary from a week (as with Unemployment Insurance) to a one-year period (as with the GIS programme). The shorter the accounting period, the more responsive is the programme, but the more likely it is that substantial overpayments occur. If overpayments are not recovered at the end of the accountable period, the programme is inequitable between people with similar income levels, but different income patterns, over the accountable period and is more expensive in terms of programme cost. Families with erratic income patterns (like seasonal workers) would stand to receive more benefits than a family with a steady income flow.

A degree of responsiveness sufficient to allow the replacement of existing social assistance programmes can be purchased only at the price of some potential overpayment and underpayment. This makes an accountable period necessary and the use of an (annual) reconciliation mechanism, possibly through the positive tax system, worth considering. Some of these overpayment and recovery problems, which can arise from the division of incomes *within* families as well as from fluctuations within the accountable period, could be substantially reduced if the tax-back rates in support/supplementation schemes are made identical to (and fully harmonized with) those in the personal income tax, at least over a substantial range of incomes.

B. THE SELF-EMPLOYED

Special treatment may be required for the self-employed in support/supplementation programmes, since the nature, timing, and accountability of their

incomes is often particularly difficult. Indeed, it has been argued by some that difficulties associated with the inclusion of this group are such as to question whether the eligibility rules should exclude them entirely. Other programmes would then have to pick up the income maintenance requirements of self-employed, either directly or indirectly. In principle it would seem desirable to include as wide a population as possible in any general support/supplementation system, rather than operate via hidden (and often inefficient) subsidies. While the Working Party would proceed from this premise and while much more work would be required on this front, enough has been done to be able to illustrate the kinds of issues involved in the case of the self-employed.

Under current needs-tested social assistance programmes, the individual case-worker can use a certain amount of discretion to determine eligibility and the size of benefits, without the system having to resort to a highly complex and detailed specification of regulations concerning the accountability of income and expenditures. Furthermore, *if* the reporting, payment, accounting and accountable periods were all set equal to one month, then the potentially high seasonal component of some self-employment incomes (e.g. from farming or fishing) by definition presents no overpayment problem in the *technical* sense. However, the community may well regard the system as inequitable if seasonal income earners are eligible for full benefits in some months even though their annual income might be substantial.

In self-reporting income or needs-tested systems, however, no observer is present to distinguish which business expenses are "legitimate" and may be deducted from the income base from those which increase the family's well-being by providing goods or services. Consequently, allowable deductions and exemptions from self-employment income must be carefully specified. The very nature of any support/supplementation system means that the authorities effectively reimburse a portion of those expenses which are deductible from the income base (providing the income levels are low enough to be within the supplementation range).

The treatment of net worth in the income base also presents a serious problem for the self-employed. While it is true that the capital assets of the self-employed represent command over current resources, it is also the case that they are the vehicle for producing future income. Requiring the self-employed person to divest himself or herself of those assets before becoming eligible to receive benefits radically increases the probability that income will remain low in the future. However, it can be argued that it is not the function of an income support/supplementation programme to effectively cushion inefficient firms from market forces or to support persons who class themselves as self-employed while essentially working at activities which have not traditionally been viewed as business enterprises. In these cases, it should probably be the role of other programmes and other agencies to satisfy and objectives concerned with stimulating business or increasing the rates of return from self-employment.

While some differential treatment of income from self-employment could be a consideration, it is highly unlikely that the self-employed could be made ineligible for assistance. Since many persons have income from both employment and self-employment sources, and since the relative proportion of each type of income can vary substantially across family units and over time, de-

fining a person as "self-employed" for the purpose of differential treatment can give rise to serious administrative and equity problems.

The other major area of concern with respect to the self-employed is the type of accounting system that should be used. If the accounting period is longer than the reporting and payment periods, then business accounting practice, coupled with high seasonal variations in income and the greater ability of some self-employed to regulate the timing of income and expenditures, can lead to a considerably higher incidence of overpayments than is the case for wage and salary earners. Indeed, these problems may be sufficiently severe as to warrant an entirely different accounting system for self-employment income, as is the case in the current personal income tax system.

In addition to the problems of integrating the self-employed in general into an income support/supplementation system, the treatment of such groups as farmers and fishermen may be even more problematic. The degree of risk attached to these enterprises is often more a function of climatic conditions than of traditional market forces. Although programmes such as crop insurance for farmers would tend to stabilize annual incomes, the seasonal component of income during the year is substantial and it may well be that such special problems would warrant special treatment even within the self-employed category as a whole. For example, longer averaging periods could be allowed in accordance with the precedent set by the positive tax treatment of these groups.

It will be seen, then, that the self-employed pose special problems for the income maintenance system that are at least as difficult (if not more so) as for the income tax system. With special provisions (and more complex administrative techniques), a functioning system that included the self-employed could no doubt be advised. It remains for further study, however, to determine whether that system would be so cumbersome as to raise the more fundamental question of eligibility (versus exclusion) for any specific new programme.

C. INTERRELATIONSHIPS BETWEEN SUPPORT/SUPPLEMENTATION AND OTHER PROGRAMMES

1. General Concepts and Overview

Income maintenance programmes have been developed at different times, by various levels of government, for very different groups of people and for a wide range of reasons. While the interrelations within the income maintenance system itself, and between that system and other programmes such as social services, manpower services, housing, and taxation, were probably never consciously disregarded, less than perfect coordination has resulted. Each of a large number of related programmes has its own particular design characteristics, benefit structure, and administrative machinery. They overlap in their coverage of individuals and families and can interact with one another (or have cumulative effects) in ways that often seem inconsistent, complicated, or even self-defeating.

While this Report concentrates on support and supplementation options primarily, Table 4 (on page 30, above) listed some of the other major programmes that impinge directly on low-income Canadians. The Report would

be incomplete without some significant reference to the more important programmes that would affect the operation or structure of the support/supplementation options. Or, equally important, these options could have significant effects on the operation of existing (or surviving) programmes and/or raise the possibility of significant changes in their structures.

It is useful to think of three broad classes of programmes in this context: "pure" transfer payment mechanisms; insurance mechanisms; and services or benefits-in-kind.

The *"pure" transfer programmes* are those which typically redistribute income, on a current basis, and in a manner that is not directly connected with past financial contributions or entitlements. Social assistance, OAS/GIS, Family Allowances, and needs-tested or income-tested allowances of various kinds would fall into this category. The support/supplementation options would replace, incorporate, or provide an alternative to most existing programmes of this type. Thus, for example, Family Allowances are explicitly incorporated into the specification of options in *Part II* below, while it is noted that OAS/GIS would likely remain as an *alternative* (for the aged) to those options unless they (the options) were more generous than the OAS/GIS programmes (and therefore replace them). The support/supplementation options envisage *replacing* the predominant part of current social assistance and possibly parts of the transfer elements of other programmes as well.

The "pure" transfer programme category could also include the *personal income tax,* even though that "programme" collects money from (rather than distributes to) individuals and families. In any case, the important relationship between income support/supplementation and income taxation merits special attention.

Insurance programmes typically involve the building of entitlements based on past participation of various kinds and generally seek to provide protection in the face of broadly-shared risks. Social Insurance programmes, such as Unemployment Insurance, Workmen's Compensation, and the Canada and Quebec Pension Plans, have developed as a response primarily to that fundamental goal — protection against risks — and in the process have *automatically* met some of the "income adequacy" goals for which support/supplementation proposals are designed. There is an obvious need to examine the interrelationships — and the appropriate roles — with respect to such programmes.

Finally, there is a variety of *services or benefits-in-kind* which involve some form of income-testing, whether it be for access to the benefits themselves, or to determine the degree of subsidization that a family would receive. Thus, any significant programme that scales fees (or subsidies) to the income of a family creates, in effect, another "tax rate" for that family. Such rates could overlap with, and *add onto,* any tax-back rates built into a general income-tested support/supplementation scheme (and add to income tax rates as well), thereby offsetting or reducing the incentive features built into such a scheme. Inequities and disincentives can easily arise. Income-tested elements in social services or housing subsidies become, therefore, an important issue for the income maintenance system.

There are *two broad views* one can take to programme interrelationships in the context of presenting and examining support/supplementation options: (1) Assume that most other programmes would continue, even if in somewhat

altered form, and simply seek to rationalize the treatment of each programme's benefits in the income support/supplementation options, or (2) Assume that, in the event of a general (reformed) support/supplementation system, other programmes should, or could, undergo significant structural changes, including complete elimination.

In the latter case, support/supplementation options would effectively "invite" major changes elsewhere, either because:

a) this would be necessary (to allow the support/supplementation schemes to function properly);
b) this would be desirable, perhaps to avoid duplication and waste and/or to make the payment of transfers more direct and more efficient; or
c) the advent of a general transfer scheme would create improved *opportunities* for other programmes to escape from some of their present burdens (of playing an income transfer role) and/or to make changes that would more effectively address their primary purposes.

In the case of continued existence of other programmes, with transfer or subsidy components remaining in their structures, decisions would have to be made about the appropriate treatment of benefits. The three possible alternatives are:

a) The support/supplementation programme could ignore benefits from other government programmes, and *vice versa*. This would mean, for example, an income-tested programme such as Day Care would not treat support/supplementation benefits as income when determining the amount of subsidy a family should receive; similarly, the support/supplementation programme would not treat Day Care subsidies as income when determining the amount of benefits;
b) Benefits from the other programme could be included in the income base for determining support/supplementation benefits and offset at either a 100 percent or a partial (e.g., 50 percent) rate. (Social Insurance benefits would be included in the income base, just as they are for income tax purposes); or
c) Benefits from the other programme could be excluded from the income base for support/supplementation but support/supplementation benefits would be included in the income base for the other programme and offset at either a 100 percent or a partial (e.g., 50 percent) rate. Rent subsidy programmes *might* be an example where this treatment could be appropriate.

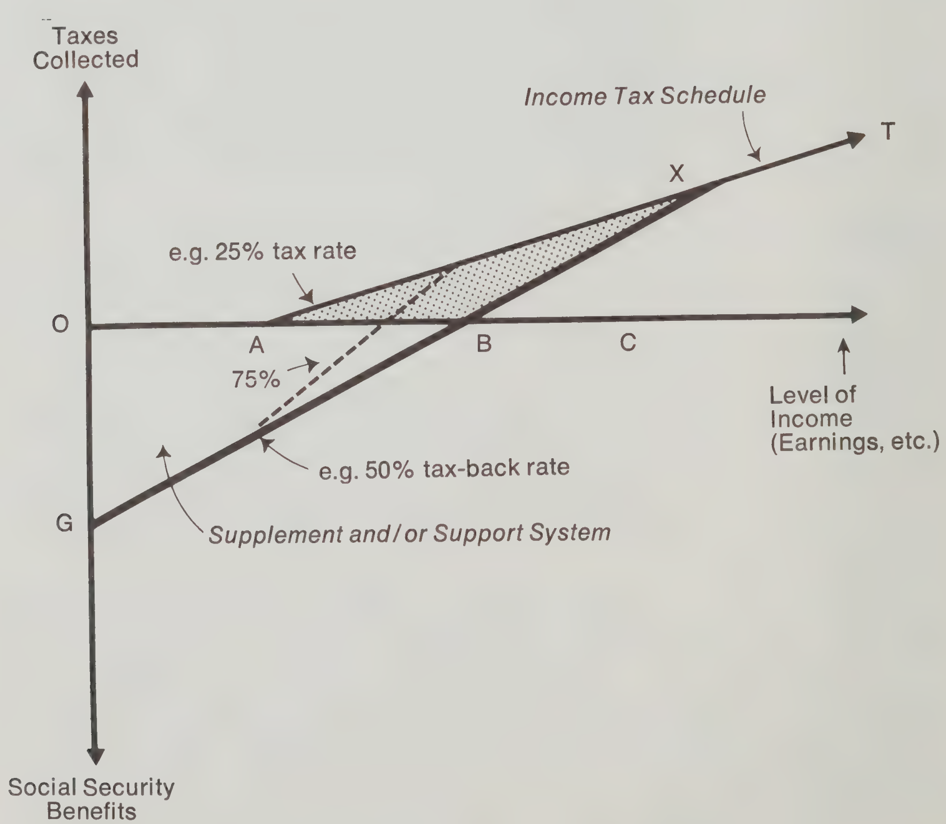
Of these three choices, alternative (a) is considered least desirable in most cases because of the possible work-disincentive effects it could generate. The choice would typically be between alternatives (b) and (c). This decision would be dependent upon the nature and objectives of the other programme and, therefore, interrelationships between the support/supplementation programme and each other programme affecting low-income families should be considered separately.

The programmes that interact most directly with support/supplementation options are further examined below. In most cases, both of the major views of the programme interrelationships (as introduced above) appear in the specific commentary.

2. Personal Income Tax

Reasonable support levels in the social security system, combined with reduction rates (or tax-back rates) of less than 100 percent, would result in a range of income over which incomes would be supplemented that considerably *exceeds* current personal tax thresholds (i.e. tax exemption levels). Thus, there is the prospect of a substantial "overlap" between the support/supplementation and the personal income tax systems. This phenomenon, if ignored, would have the effect of reducing incentives in the overlap area because the tax rates in the two systems are effectively added to create a higher effective rate. Moreover, it places governments in the position of "giving with the one hand and taking with the other". This seems inconsistent in that one system is providing assistance to those regarded as being in need, while the other is collecting contributions to government on an "ability-to-pay" basis *from those same people*. In addition, the combined effect on the distribution of personal incomes may be different from that desired by either system.

The potential "overlap" problem may be illustrated, in its "pure" form, in the chart below:



Taxes begin at point A (the "tax threshold") on the Income scale, but benefits ("below the line") extend as far as point B (the "breakeven level"). If both systems operate independently — i.e. the overlap is ignored — then the *effective* rate of tax on earnings between A and B is the *sum* of the rate at which benefits are reduced (50 percent in the example) and the income tax rate (25 percent in the example). The total effective rate of 75 percent is illustrated by the slope of the broken line, which indicates the net position of a person at any given income level between A and B.

There are three basic ways in which rationalization (or "harmonization") of the two systems may be approached:

a) *Adjust the supplementation benefit structure,* so as to "continue" into the tax range and use the social security system to provide tax rebates or reductions to lower-income taxpayers. In the diagram, the line B-to-X would represent this "extension"; all families or individuals receiving supplements (because their regular income is below B) would *also* have their taxes rebated. Individuals with incomes between levels B and C would receive partial income tax rebates; those beyond C would pay taxes as before. The triangle OGB represents the basic social security benefit system, while the triangle ABX shows the additional tax rebates that would have to be paid out in order to offset or counteract the overlap, thus avoiding any "doubling-up" of tax rates.
(This is the approach to "harmonization" that is "assumed" in order to present cost estimates in *Part IV* below, for those options involving an income-tested transfer system for the delivery of supplementation benefits.)

b) *Adjust the tax structure,* so as to push *out* the tax threshold (e.g. to level B in the diagram) to avoid the overlap. Simply increasing tax exemptions to achieve this change would be *very* expensive in terms of revenue loss, reflecting the fact that tax reductions would extend throughout the entire taxpaying population. Adjustments that would confine benefits only to lower-income taxpayers would presumably be more desirable and less costly. In the limit, a new tax line, like BXT in the diagram, might be contemplated; in this case the result would be essentially the same as in approach (a) above, only achieved through tax reductions rather than benefit payments (rebates).

c) *Integrate the tax and supplement systems* into one structure. This could be achieved by the introduction of refundable tax credits, which would replace tax exemptions. The tax system would be utilized to either pay net (supplementation) benefits or collect net taxes and would be so constructed that any overlap is automatically avoided through the design of the (single) system. Such a possibility is envisaged (and described in more detail) in one of the options (Option 3) presented in *Part III*.

Many alterations or combinations of adjustments can be developed but they are far more complicated than this simple introduction. Substantial work on specific possibilities is well under way and included in such work will be the consequences of less-than-complete harmonization of the two systems. This may be realistic, not only in the sense that some overlap may be judged "acceptable" (or at least too costly to avoid) in the short run, but also because

differences may appear in other forms as well. Thus, for example, there may well be different definitions of income, of the tax versus supplementation unit (individuals versus families), of accounting or accountable (reconciliation) periods, and so on.

If the tax and support/supplementation systems remain separate, it would probably be inappropriate for the tax system to bring support/supplementation benefits into the tax base, even if the systems were *not* fully harmonized. In this case, however, the income security programmes might take income taxes paid into account in assessing income for the determination of benefits. This is essentially what is done at present in social assistance programmes. If there were an overlap between the systems, then "taking taxes into account" would *de facto* be a variation of approach (a) above — that is, the supplement structure would "adjust", so as to reduce the impact of that overlap.

3. Social Insurances

As the options to a reformed income support/supplementation system are narrowed down and more clearly defined, it will become increasingly important to consider the best way to integrate these options with the other major dimensions of the social security system. Thus, the basic roles, structures, and operations of Unemployment Insurance, the Canada and Quebec Pension Plans, and Workmen's Compensation Programmes might be reconsidered in the context of a reformed system.

It may be, for example, that some benefits now being paid by current social insurances could be more appropriate and/or efficiently delivered by a general support or supplementation programme. If such is indeed the case, then the question arises as to how social insurances might be adjusted to avoid duplication or overlap. As indicated earlier, the social insurance programmes may have the opportunity to focus more efficiently on their primary objectives relating to protection against risk.

In the case of Unemployment Insurance, the question may arise as to whether there is a need for dependency benefits in that programme if income supplementation is designed to help compensate for the cost of raising children. Also, the question of the generosity (and incentive difficulties) associated with the current basic benefit structure might be more easily reconsidered. A basic supplementation system might interact with a revised unemployment insurance structure so as to adequately protect those with very low earnings levels, if (for example) the supplementation scheme were to count unemployment benefits like other regular income, rather than treating such benefits as *alternatives* to supplementation. Various combinations of structures and treatments (of "other programme" benefits) are being examined by the Working Party, with the participation and cooperation of the staff of the Unemployment Insurance Commission.

In the case of the Canada and Quebec Pension Plans, it is appropriate to reconsider the role of flat-rate survivors and disability benefits, in the face of a possible general income supplementation system. This issue has been recognized in the past and more intensive attention will be given to it as the support/supplementation possibilities become more specific.

Regardless of any *structural* change in social insurance programmes, there will remain the issue of how benefits from such programmes should be treated

in support/supplementation schemes. Some possibilities with respect to unemployment insurance were mentioned above. To take Workmen's Compensation as a final illustration of this, suppose someone in receipt of Workmen's Compensation benefits is *also* eligible for income supplementation or support, then:

a) should WC benefits be ignored by a support/supplementation programme (e.g., zero percent tax-back rate); or

b) should a supplementation programme consider WC benefits as an *alternative* and only pay the excess if supplementation benefits were higher (e.g., 100 percent tax-back rate); should WC benefits only "top-up" the supplement if WC benefits were higher;

c) should WC benefits be counted like earnings and affect support/supplementation benefits through their assessment of income?

Just how the benefits of one system are treated in another can obviously have different effects on incentives, costs, and the administrative complexity of each programme and, therefore, of the system as a whole.

One final issue that will require examination in connection with social insurance programmes is the treatment (in the support/supplement system) of *contributions*. Unemployment Insurance contributions will likely be paid on earnings levels that also qualify for supplementation. Should the contributions be "deductible" as expenses, thereby causing higher supplementation benefits to be paid, or should a restructuring of the contribution rates be considered? How to deal with this problem is a question that must be considered. A parallel question is raised with respects to CPP/QPP contributions.

4. Social Services; Housing

Recently, there has been a movement towards subsidy programmes for many social services such as Day Care, Nursing Homes, Legal Aid, and Housing. The amount of the subsidy granted a family under these programmes usually depends on the family's income and, therefore, it is expected that many low-income families receiving support/supplementation benefits would also be receiving some subsidies under various social services or related programmes.

One basic interrelationship issue is, again, the treatment of benefits from these programmes in the support/supplementation programme, or vice-versa. It should be noted, however, that:

a) some subsidies are not explicit and would have to be *imputed* if "benefits" were to be assessed. Thus, for example, in the case of housing, a "market value" for a dwelling unit would have to be known before the amount of subsidy could be determined; and

b) some social services might be regarded as "special needs" not covered by a general support or supplementation programme. Thus, it may be desirable to include benefits from support/supplementation in any income base used for determining the eligibility (or amount of subsidy) for such social services, and *not* vice-versa.

The relationships between general income supplementation and *housing subsidies* particularly will require detailed examination and they deserve more than passing mention at this point.

Housing subsidies can be viewed either as an "in kind" form of income supplementation or, alternatively, as a possible substitute for income supple-

mentation. In their most common form, "rent-geared-to-income" housing subsidies are based on an income test which incorporates its own definition of income, family unit, reduction rate, etc.

At the present time, the subsidy involved in a "rent-geared-to-income" housing system is available to a limited number of people only. This factor, in conjunction with the shortage of low-cost housing and the absence of an alternative form of supplementation, can result in equity problems. Whereas subsidized housing recipients receive substantial benefits, other families (with similar or lower incomes) may have no recourse to an alternative form of supplementation and are forced to acquire more expensive housing in the private market.

The introduction of a general income supplementation system would raise a number of issues concerning housing programmes. The basic programme interrelationship questions are in fact complex, but can be simply stated:

a) How is the value of the housing subsidy treated by the income supplementation system? If the programmes are simply stacked, the multiple benefit status of the housing recipients will continue, as will the inequities. If the programmes are offset, how will this be accomplished? What income and family unit definitions, reduction rates, etc., will be required?

b) How will the value of the housing subsidy be treated by the income tax system (with or without integration of the income supplementation and tax system)?

The advent of general income supplementation may also affect the existing *approach* to subsidized housing, of course, since housing subsidies and income supplements are at least partially interchangeable.

Finally, of critical importance (quite apart from the technical questions of programme interrelationships or possible long-term policy changes) are short-term policy issues pertaining to the impact of supplementation on the low-income housing market in general. The most immediate question appears to be the potential impact of supplementation in areas where housing costs are extremely high and stocks are limited. A significant increase in the price of lower cost housing could offset (or absorb) many of the real benefits which supplementation was intented to provide. It would be particularly upsetting if new income support or supplementation initiatives were themselves the cause of significant price increases, although some impact in this direction might well occur if ways could not be found to counteract those pressures.

5. Manpower, Employment, and Other Programmes

There is obviously a long list of additional programmes that would interact with income support and supplementation schemes. Among them are:

a) Manpower Training Programmes
b) Manpower Mobility Programmes
c) Direct Job Creation Programmes
d) Veterans Allowances and Pensions
e) Programmes for Native Peoples
f) Student Aid Programmes
g) Other government programmes that provide direct income assistance to people.

The general issues outlined in Section 1, General Concepts and Overview, apply in some measure to each of the above programmes. Policies that will ensure rational interrelationships between a support/supplementation system and each of these must be developed. For example, it must be determined whether manpower training allowances should be treated as "alternative" government transfers (i.e., offset at 100 percent against support/supplementation benefits) or as earnings (i.e., reduced at a lesser rate, and perhaps supplemented by a new general system). Alternatively, all financial support for people receiving manpower training could be provided through the support/supplementation system. But, would this require the two programmes to have identical eligibility criteria and other design characteristics even though the objectives may differ considerably?

The process of sensibly coordinating a new support/supplementation programme with each of these programmes in addition to the tax system, the housing and social service programmes and the social insurances will require considerable work by numerous agencies at many levels of government. This work will proceed during the next phase of the Review.

6. *Minimum Wage Regulations*

Both the federal and the provincial governments legislate the minimum wage that can legally be paid to workers. Should this wage rate, when transformed into an annual income for someone employed full time, be related in any fashion to the parameters of an income support/supplementation system? Should, for example, full-time employment at the minimum wage provide income equal to or greater than the supplementation breakeven point for a two-person family? Or, should minimum wage earnings be at least equal to the full support level (not the breakeven point) for a four-person family? In general, the next phase of the Review must include a serious discussion of the relationship that minimum wage earnings ought to have to support/supplementation systems.

Up to this point, the Report has reviewed the background against which support/supplementation options have been developed and must be assessed, and the complicated environment in which such programmes would have to operate. The next section presents the support and supplementation options themselves.

III. Basic Support/Supplementation Options

A. INTRODUCTION

The Ministers of Welfare agreed at Edmonton, in February 1974, to further develop three approaches to an integrated income support and supplementation programme:

a) reforming existing social assistance schemes to assure adequate incomes to those who are not working (due to an inability to find employment), and extending their benefits to those who are working, but at unacceptably low incomes (a problem not generally being met through social assistance today); or

b) through developing a substantially new income support and supplementation scheme, designed to meet the needs of both groups; or

c) through developing a scheme which would meet the needs of those who are working, and integrating this with reformed social assistance schemes for those who are not working.

This section of the Progress Report provides a general description of the main options available under these approaches. The descriptions should not be taken as an appropriate basis for deciding on the exact form of income maintenance policy for Canada. Their purpose is to provide the basis for a narrowing of the options so that, at the next stage of the Social Security Review, a limited number can be studied in detail. For this reason major design issues have deliberately been left incomplete, except where specification was necessary to differentiate between options.

Given this mandate, the Working Party identified six basic options for providing income support for those with little other income and for supplementing those whose incomes from employment is inadequate to meet their needs. While none of these options are presented as reforms of existing social assistance schemes (that is, under approach (a) above), that possibility remains an active approach. After further deliberation, the Working Party felt that the options within approach (a) differed from those under (b) and (c) only in respect of administration and jurisdiction. Since those questions will be discussed at a later stage in the Review, any current descriptions of options under this approach would be indistinguishable from descriptions under the other two approaches.

The options presented here are neither exhaustive nor exclusive; their presentation in similar form is not meant to imply that all parties to the Review would find them equally acceptable approaches to income maintenance policy.

B. ASSUMPTIONS AND METHODOLOGY

1. Assumptions

The presentation describes the options in terms of the design characteristics discussed in the previous section of this Report. Slight variations in any or all of these characteristics can lead to an infinite number of variations and, at the limit, each option blends into the next. This Report concentrates on the

major types of options and does not attempt to cover the entire range of combinations and permutations possible.

To further simplify the presentation, a series of important assumptions have been made. They are:

a) All of the options shown represent a national average system. Substantial variations in eligibility rules and benefit structures exist (and are likely to continue) between and, to some extent, within provinces. Since the Review has yet to report on questions of jurisdiction, administration and finance, no attempt has been made in this Report to describe if and how such variations could be achieved;

b) Emergency assistance, special needs, and continuing financial assistance to those with long-term special requirements (for example, special pharmaceutical or transport allowances) are characteristics of all present social assistance systems. It is assumed they will be required in any new system that is developed and, in all cases, they should be considered an addition to the structure described in this Report. However, the importance of this item may differ depending on the option chosen;

c) The Old Age Security — Guaranteed Income Supplement System and similar provincial programmes for those over sixty-four will determine the benefits available to this group, unless a more generous general programme is adopted. For this reason the illustrations and discussion in this Report refer to individuals under sixty-five and families where all members are under sixty-five;

d) Except where changes to the personal income tax system are specifically implied by an option, the discussion of how and to what extent the tax and benefit systems should be harmonized has been left open. This is not intended to imply that harmonization of the two systems is any less necessary in those options;

e) Similarly, unless a change is specifically implied by the option, the Federal Family Allowance system is assumed to continue in its present form. Present Family Allowances, however, would be fully offset against other income maintenance payments. That is, they would be viewed as part of support/supplementation benefits. While Federal Family Allowance payments vary with family size and the children's ages in Quebec and Alberta, the simpler $20 per month per child paid in other jurisdictions is used in all examples;

f) It is assumed that each option described is a complete system. However, in practice it is possible to combine the machinery of a number of them to produce a much wider range of possibilities. For example, social assistance might be reformed and could continue to deliver benefits as at present, while supplementation payments to those working were delivered by the income tax system. Indeed, the delivery of supplementation could be divided. Employees could receive payments via a tax credit mechanism, while the self-employed could receive benefits through a separate programme or indirectly through financial institutions.

2. Methodology

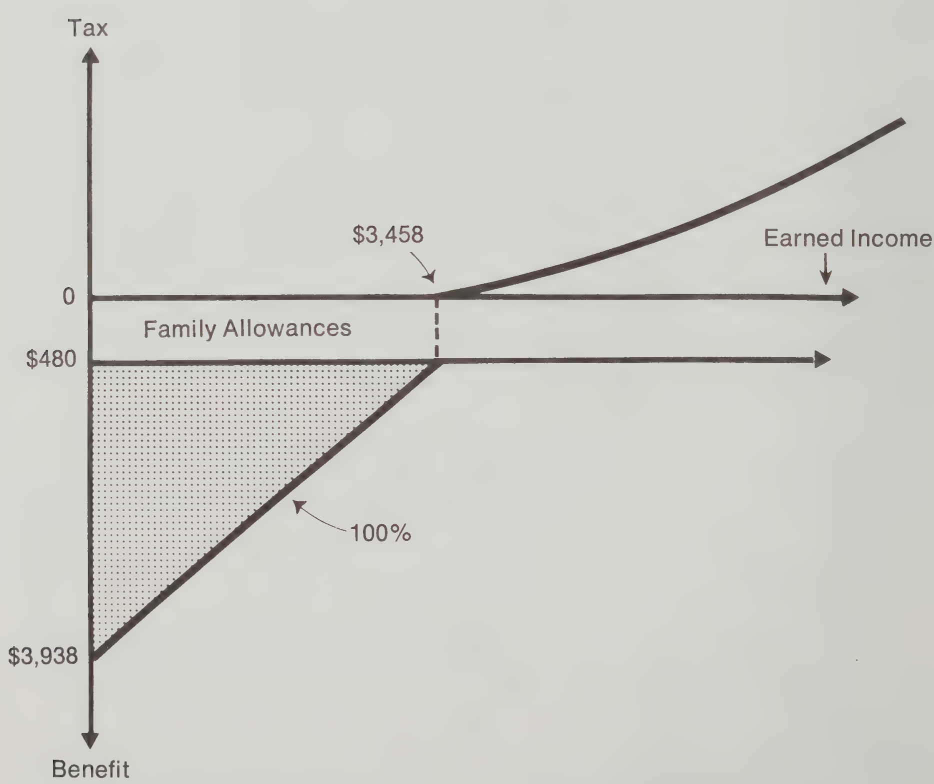
A brief explanation of the method of illustrating and describing the options might be useful. All illustrations are in terms of an "average" two-parent,

two-child family, with both children of Family Allowance age. The family's non-transfer income is essentially earnings from employment.

The first drawing below does not represent any present or proposed programme, but illustrates the method of presentation to be used. The horizontal axis measures income before either taxes or government transfers. For the typical employee, this is largely earnings, though income from investments, net receipts from roomers and boarders, and other receipts similar to earnings would be included. This is the same basic "format" as that used in the earlier chart (page 46).

The vertical axis below this line shows benefits from government transfer programmes. For most families with children this would include a Federal Family Allowance of twenty dollars per month per child, or $480 per year for this "average" two-child family. Other programmes could be added here but, for reasons of clarity, only the universal Family Allowance and the general support/supplementation programmes are shown.

The support/supplementation programme shown in this first illustration is the simplest sort of "gap fill' social assistance programme. The family with zero net income would receive *maximum support* payments of $3,938 (including Family Allowances). For every dollar of earned income, these payments would be reduced by a dollar (a tax-back rate of 100 percent) until only net earnings and Family Allowances were left. This *breakeven point* would occur



at $3,458 of earnings. At that point, in this diagram, personal income taxes would begin (the *tax threshold*). Thus, in this case there is no *tax overlap;* the tax and benefit systems are *fully harmonized*.

The vertical axis, above the net income line, measures personal income taxes. In all cases any actual rates shown are a combination of the 1974 Government of Canada tax and an "average" Provincial tax (assumed to be 33 percent of the federal levy). Total taxable income would be net income (earnings) *plus* Family Allowances. The tax is shown as applying at $3,458 on the earnings line: adding $480 for Family Allowances to that number gives $3,958, the actual (total) exemption level on the 1974 tax schedule.

C. THE OPTIONS

Approach b) through developing a substantially new income support and supplementation scheme, designed to meet the needs of both groups;

This approach would involve common eligibility criteria for all typical families, whether they required full support or only supplementation. Assuming all other relevant circumstances are the same, benefits would differ only to the extent there were differences in income.

There are three techniques for delivering benefits in such a system:

1. a separate income testing system,
2. an expanded income tax system,
3. a social dividend system (using demogrants to provide full support to all Canadians, with recoveries from those who do not require support or supplementation through a reformed income tax system).

Either the first technique, or a combination of the first and second, could be developed to deliver a combined income support/supplementation system. Since the administration details are not dealt with in this Report, only one option will be presented. This option does not distinguish between the use of a separate income testing system or a combined income testing/income tax system. The third possibility, that of meeting the income support and supplementation needs of all Canadians through social dividends, or demogrants, would imply such substantial flows of funds through the public sector that its consideration would exceed the mandate for *reform* of the social security system.

OPTION 1

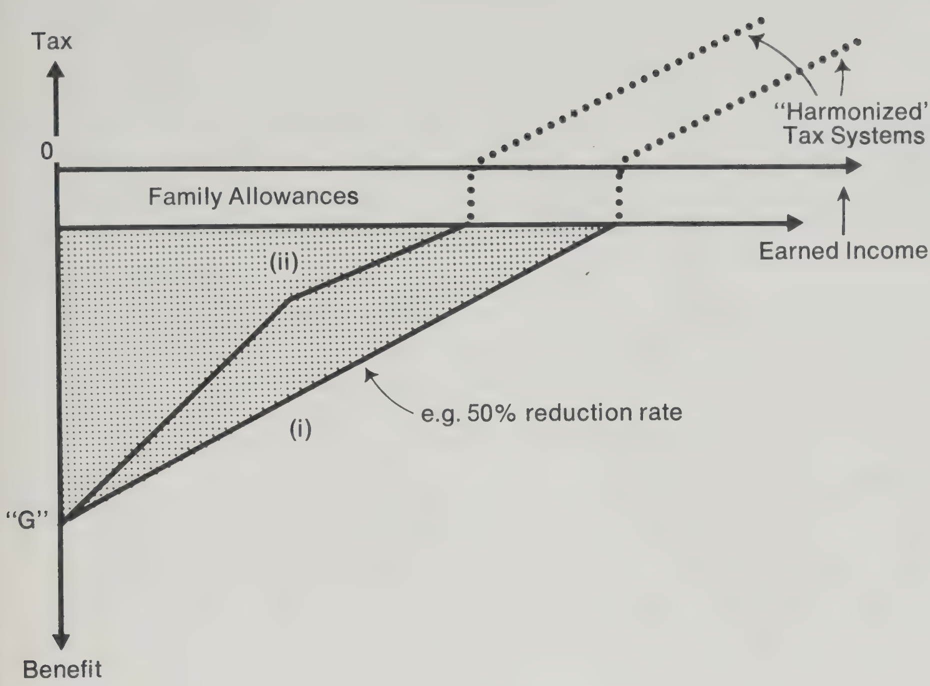
A Combined Support/Supplementation System

CHARACTERISTICS:

1. *Eligibility:* There would be no distinction between those working and those not working. Access would be substantially determined by income, although certain groups might be excluded, e.g. single people under 30, strikers, etc. The greater the number of exceptions, however, the greater will be demands on an emergency assistance or "back-up" system.
2. *Benefit Structures:* Since *both* Support and Supplementation would be served by a single structure, both *adequacy* of benefits for those who cannot work *and* appropriate incentives for those who can must be built into the benefit structure (or compromised). The maximum benefit (guarantee level) for the average family should be adequate to sustain recipients on a long-term basis. As per assumption (b) on page 53, special provisions would be necessary for those with long-term requirements who need additional support, such as the severely handicapped or disabled.

   The rate at which the benefit is reduced, as other income increases, will depend on the financial incentive (or reward) desired in the system and the level of public transfers the community will accept. The following diagram illustrates the following features:
   (i) a relatively low reduction rate (over a wide range of income) providing a similar incentive to those not working *and* those working. Because supplementation would be provided up to a relatively high earnings level, benefit costs would be relatively high, as would the cost of harmonizing with the tax system.
   (ii) a more complex rate structure which reduces costs by reducing the financial incentive provided to those with little or no other income. However, it retains a greater incentive for those working at levels of income that require supplementation.
3. It is assumed that the existing Family Allowance demogrants will continue. The total guarantee level (Point "G" in the diagram) includes the demogrants as part of the adequate support that is allocated for children in each family.
4. *Other Relevant Design Characteristics*
   The single set of eligibility rules and combined benefit structure discussed above have implications for the definition of income and the accounting system in a combined programme.

   Since a single definition of income would be the major determinant of the appropriate benefit in a combined support/supplementation programme, that definition of income becomes a critical element in the determination of cost. A broad definition, including imputed rent from owner-occupied homes, for example, would reduce the amount of benefits paid and increase the equity as between recipients with and without their own homes. It would, however, increase administrative costs and create differences in treatment as between benefit recipients and taxpayers. Similar problems are



created where potential recipients own other assets which do not produce periodic money income.

Short payment, reporting and accounting periods are important in a combined programme (as in all others) to allow it to be responsive to need. However, the primary importance of income as the determinant of the benefits makes a longer accountable period more important if the treatment of those whose incomes fluctuate over time is to meet community standards of equity. For example, a construction worker who earns income in only three or four months could receive benefits for eight months; with only a monthly accountable period, a worker with such a seasonal income pattern would not be required to make repayments. At the same time, the factory worker, with the same earnings spread evenly over the year, would remain ineligible for benefits. (This problem would, in certain circumstances, only be shifted from the general to the emergency system by the use of a longer accountable period).

The support unit definition, special problems of the self-employed and interrelationships with other programmes involve no unique problems in this option.

Approach c) through developing a scheme which would meet the needs of those who are working, and integrating this with reformed social assistance schemes for those who are not working.

This approach would imply a new income supplementation system applying across Canada with income support being delivered through reformed social assistance programmes. Eligibility criteria for support under this approach would differ substantially from those for supplementation. In addition, the income tests applied in the components could be different and, since the supplementation component would be designed for those with some income from employment, the maximum payment it delivered to the typical family would not by itself be sufficient for adequate support.

Supplementation under this approach could be delivered by a separate income-testing programme, a revised income tax system or by a demogrant. Options using the first two techniques are described in this section (Options 2 and 3). In determining who ought to be eligible for income supplementation, it can be argued that the principal need for supplementation by the working poor results from the fact that wages do not differ by family size. If this were the case, supplementation benefits might be efficiently limited to families with children. These benefits could be delivered through an income-testing programme (Option 4), a revised income tax system (Option 5), or by a demogrant (Option 6). A further possibility for the provision of supplementation would be to provide a demogrant to homemakers and/or child carers (rather than payments only in respects of children, as such). This possibility implies such a substantial change in the method of income distribution in Canada as to exceed the immediate mandate of the Working Party.

OPTION 2

Income Supplementation through Transfer Payments

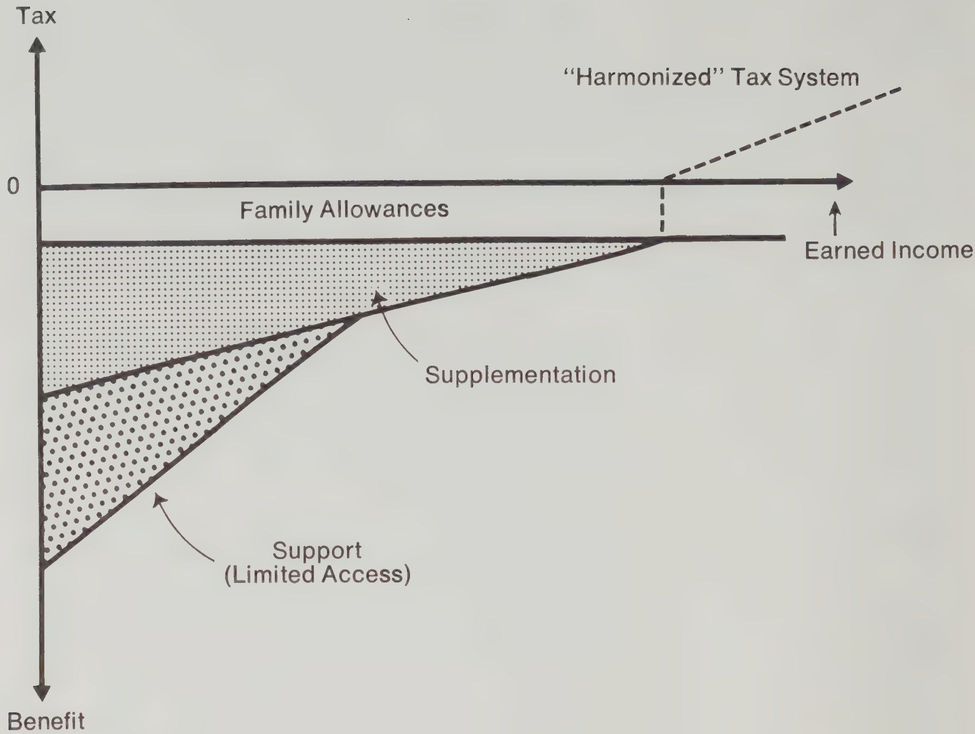
1. A two-part income support/supplementation system would be involved, with one part designed primarily to supplement earnings through an income-tested transfer programme, and the other part designed primarily to support the incomes of families with zero or very low earnings (*possibly* via a separate programme).

2. *Access to supplementation* payments would be substantially determined by income, although students, strikers, single people under a specified age might be excluded. However, the greater the number of exclusions, the more the emergency back-up system would begin to resemble an additional structure with increased administrative complexity.

3. *Eligibility for full support* would be more restrictive than for supplementation. This component would provide adequate levels of benefits for those who must rely upon the income security system for most (if not all) of their income, on a long-term basis. Examples of those automatically eligible are the severely handicapped, the disabled, or others clearly unable to find or cope with employment. As per assumption (b) on page 53, special provisions would be necessary for those with long-term requirements who need additional support, such as the severely handicapped or disabled. Alternatively, access for full support might be limited via *exclusions*, such as those for whom jobs are clearly available, and whose age, mobility, or other factors are favourable with respect to employment.

4. Benefit Structure:
   (i) Supplementation: Since these benefits are primarily aimed at those working, they need not, by themselves, be adequate for full support. As income rises, the reduction of benefits should be at a rate low enough to maintain work incentives. The income test might be straightforward and relatively simple, operating in a manner similar to the income tax system.
   (ii) Support: The general guarantee (or full support level) would need to meet an acceptable community standard. Since this system would be aimed at those not working (by reason of unavailability of employment opportunities or inability to take advantage of them), a higher reduction rate, implying reduced financial incentives, might be acceptable. The income test and definition could also be more stringent.

5. The combined two-part structure could appear, in design terms, similar to the complex-rate variant of Option 1. In this case, however, *not* everyone would have access to the "full" guarantee levels. Thus, diagrammatically:


Tax
"Harmonized" Tax System
0
Family Allowances
Earned Income
Supplementation
Support
(Limited Access)
Benefit

The existence of a large, relatively efficient income-testing machinery, with which most of those working are familiar, has suggested a number of ways of using the income tax system to deliver benefits to the working poor. Perhaps the most developed proposal of this type was the *Tax Credit system* described in a 1972 United Kingdom Green Paper. Adapting those proposals to Canada would require two major changes in the Canadian income tax system. First, the present personal exemptions would be replaced by tax credits. Exemptions for the individual taxpayer and his dependents are a deduction from income before the calculation of tax. In a credit system, on the other hand, taxes are calculated on total income and the amount of the credits is deducted from the calculated amount of tax. The credit reduces taxes by the same dollar amount regardless of the income level or the tax rate, while the effective tax relief provided by exemptions increases as tax rates increase. Where taxes payable are less than the value of the credit, this proposal would refund the difference to the taxpayer.

Second, the British proposal used a tax system which had a single tax rate over most of the range of income to which refundable credits were likely to apply. Above this range a further progressive tax was added. This single tax rate, with an additional tax on high incomes, was a feature of the British Tax system well before the Green Paper proposals. While not essential to the provision of refundable credits, such a single tax would greatly simplify administration. Specifically, it reduces underpayments or recoveries in the case of fluctuating incomes, and also reduces the incentive to "split" families for tax purposes.

Tax credits could be provided in Canada in a variety of ways. For example, credits for employees (and his or her family) might be delivered via the employer. The employer could regularly calculate wages, deduct taxes, add the credit, and pay the total to the employee. In making returns to National Revenue, the employer could deduct the value of credits paid from taxes withheld before transmitting them. When the employee became unemployed or retired, the credit and the benefits to which he or she was entitled could be administered by a social insurance agency. If the social insurance eligibility expired, the credit could be taken to and could form part of the payment from a reformed social assistance agency. Option 3 illustrates this approach in a format comparable to that for other options.

OPTION 3

Income Supplementation through Refundable Tax Credits

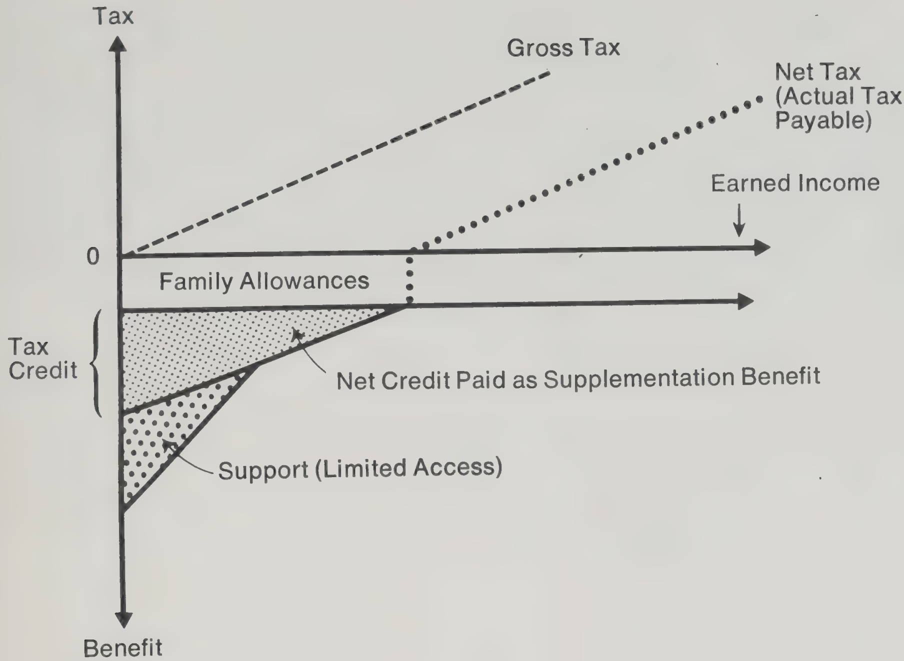
1. *Eligibility:* Eligibility for tax credits, like exemptions under current taxation, would probably be universal. Net payments (i.e. *refundable credits*) could be denied certain groups when returns were reconciled at year-end and the administrative structure could be established so that only employers (or employers and social insurance agencies) could deliver refundable credits. Other forms of restrictions would be very difficult to enforce.

2. *Benefit Structure:* The maximum value of the tax credit need not be adequate for those with no other incomes, as its purpose would basically be to supplement the incomes of those working. The amount of the credit, like the tax exemptions they would replace, would vary with family size and composition. If the credit exceeded the tax liability, the difference would be paid (or refunded) as an income supplementation benefit. The net value of the credit as a supplement is reduced by the income tax rate from the point at which the tax system becomes effective. The amount of financial incentive built into the system is thus determined by the tax rate — the lower the rate, the greater the incentive.

3. *Relationship to the Tax System:* Income supplementation through tax credits would be delivered through the mechanism of the personal income tax system. This linking of the supplement system and the tax system would imply a close correspondence in features such as the definition of income and support unit. Tax credits would necessarily replace present personal tax exemptions: the *net* tax liability would be collected in the same manner as at present. "Harmonization" between taxes and supplements would be achieved automatically through the operation, since gross taxes minus credits would automatically yield a net tax liability *or* a net benefit payment, but never both.

4. Limited Access to the *Support* System would operate as in Option 2. It would be operated separately from the tax system and would probably involve more stringent income-testing, a different support unit definition, and would be on a restricted-entry basis. If similar income and access rules were used for both support and supplementation, this option would become a variant of Option 1.

5. *Diagrammatically*



6. *Other Relevant Design Characteristics*

The close relationships with the income tax system would create unique relationships with other programmes and special problems in defining the support unit.

Since the income tax system would be the basic delivery mechanism, full integration of the tax and supplementation systems is implicit. Social insurance benefits should be treated the same as other forms of taxable income, as defined by income tax. If the tax rate applied to social insurance benefits in the supplementation subsystem is different from the normal tax rate there would be accounting problems and notches. Social insurance contributions would continue to be regarded as a deduction. While the tax credit system could ignore the subsidy elements of social services and housing, one possible treatment would be to consider them in the same manner as housing and similar benefits provided by private employers (that is, treat them as imputed income).

The tax system currently defines its unit as the individual filer and dependents, where dependents' incomes are less than a specified level. Using this as the unit definition for supplementation could create inequities relative to a support system operated on a family unit basis. Such inequities could be reduced by not allowing anyone claimed as a dependent to file for a credit in his own right (as with the Ontario Tax Credits). The possibility of requiring family filing for personal income tax would mean substantial administrative change and/or new enforcement machinery.

CHILD-RELATED OPTIONS

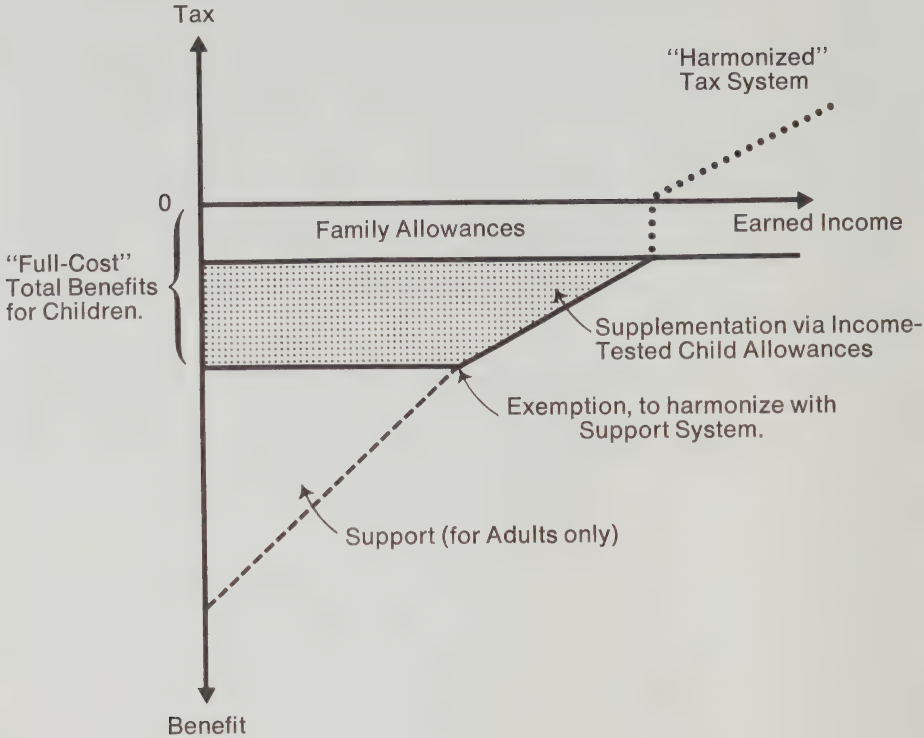
As suggested earlier, if supplementation for those working at unacceptably low incomes were primarily a matter of adjusting for family size, a supplementation system to deliver benefits only on behalf of children is a major possibility. Families with children account for 75 to 80 percent of the population (excluding the elderly) below most low-income measures. Thus, supplementation directed at children could certainly be useful. However, by the same measures, close to a million Canadian adults in poverty (again, other than the aged) would receive no help from such measures. The three options that follow suggest three different approaches to children's benefits as a supplementation system, combined in each case with a restricted support system for adults.

OPTION 4

Income-Tested Child Allowances

1. *Eligibility:* Only families with children under specified ages would be eligible to apply; payment of benefit would be substantially determined by income.
2. *Benefit Structure:* Maximum benefits per family would be related to the number of children and could vary with the age of the children. To fully adjust low wages for family size, the benefit (including current Family Allowances) would have to approximate the cost of raising a child. At very low incomes, the child benefit would be exempt from reduction; however, beyond a specified income, the child allowance would be reduced as income increases.
3. *Relationship with the Tax System:* With a low reduction rate, this option would generate a substantial overlap with the present income tax system. This overlap would increase with family size if the value of the child benefit exceeded the "value" of the child exemption in the tax system. Income tax thresholds would require adjustment in full "harmonization" were to be achieved (i.e., if overlap of the tax and supplement system were to be avoided).
4. A programme of this type has recently been started in Saskatchewan. It differs from the previous Federal Government Family Income Security Plan (F.I.S.P.) proposals in that income-tested allowances are built on top of existing family allowances, rather than replacing them.
5. *The Support System* benefits would apply to adults and to those children with long-term special requirements. Full maintenance of children with normal requirements would be assumed to be covered by the supplement. Eligibility would need to be fairly open since this would be the only "residual" programme for parents and childless adults.

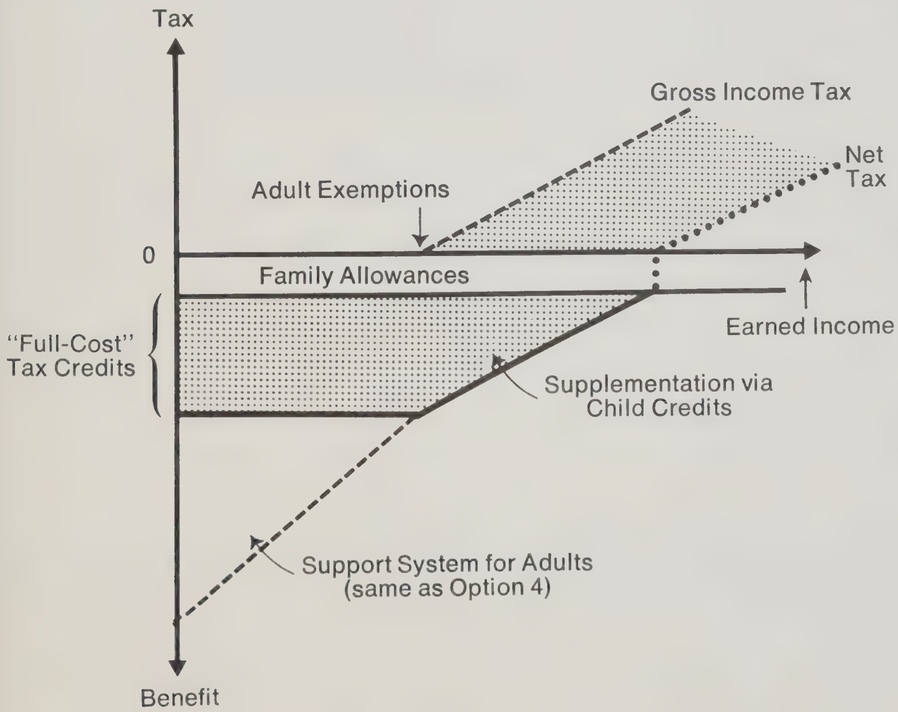
6. *Diagrammatically:*



OPTION 5

Refundable Child Tax Credits

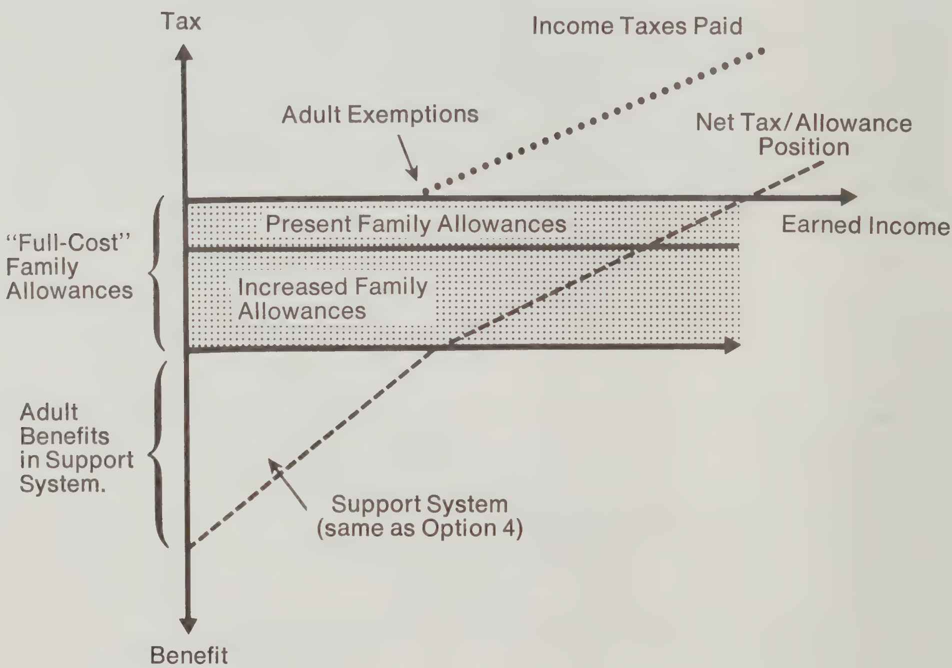
1. *Eligibility:* All families with children below specified ages would be eligible for child tax credits. Whether any or all of the credit would be paid out as benefits, or simply offset against gross taxes, would depend on the level of income of the person claiming the credit. Families with very low incomes would receive full benefits, along with the universal family allowances.
2. *Benefit Structure:* Child tax credits would replace present child exemptions in the tax system. The total credits available to a family, like current exemptions, would likely vary with family size; the tax credit plus family allowances would have to approximate the cost of raising a child.
   The credit would be deducted from gross tax payable. If the credit exceeded tax due, a positive benefit would be paid, thus the use of the term "refundable" tax credit. At the point where the tax system becomes effective, e.g., where income exceeds adult exemptions, the portion of the tax credit refunded would be reduced by the income tax rate. The amount of incentive built into the system is thus determined by the income tax rate — the lower the rate, the greater the financial incentive.
3. *Relationship to the Tax System:* The income tax system would be the mechanism for the delivery of income supplementation through child tax credits. As a result, most of the concerns and advantages mentioned under the full tax credit would be applicable here.
4. *Diagrammatically:*



OPTION 6

Increased Family Allowances (Demogrants)

1. *Eligibility:* All mothers (guardians) with children under specified ages would be eligible for increased family allowances.
2. *Benefit Structure:* Maximum benefits per family would be related to the number of children and could vary with the age of children and number of children in the family. To fully adjust low wages for family size, the family allowance payment should approximate the full cost of raising a child.
3. *Relationship with the Tax System:* No direct relationship, except with respect to whether larger allowances would continue to be taxed, and whether existing children's exemptions would be retained.
4. *Diagrammatically:*



This presentation of options provides a basis for comparisons or evaluation only in broad structural terms. An overview of the financial implications, on a comparably *general* basis, is presented below in *Part IV*.

IV. Financial Evaluation of Options: Potential Total Costs

A. INTRODUCTION AND ASSUMPTIONS

1. Introduction

The preceding section described the major options for income support/supplementation without indicating the probable benefits that would be available for individuals and families, or the total costs which all Canadians would be asked to meet as such programmes were implemented. In large part, this is because the options have only been defined in general terms. Decisions on finance, jurisdiction and administration are to be part of later stages of the Review and these decisions will have important effects on benefits and costs.

If the options are to be reduced to a more limited number, however, it seems essential to provide some broad financial evaluation in terms that facilitate comparisons between them. This can be done without defining which government delivers which service, or in which way it is delivered. By using national average figures, the question of how benefits would vary across regions and jurisdictions can also be ignored to some extent.

To facilitate an analysis of the size and incidence of benefits or costs, a number of detailed choices are required in order to define each option more precisely. Apart from such general issues as income definition and accounting procedure (per *Part II* above), these include:

a) *The guarantee levels* that would apply to (say) the prototype family (family of four), in both the support and supplementation parts of any option. This obviously relates directly to the goal of *adequacy* of support.

b) *The reduction rate* (33⅓%, 50%, 75%, 100%) in the separate systems and their combinations. This bears on the *incentives* question.

c) *The income thresholds* (or breakeven points) at which supplementation would cease.
(Note: in general, the choice of two of the above three issues will automatically determine the third).

d) *The division of the basic amounts* for the prototype family into the "share" to the adults and the children, in both the support and supplement parts of each option. This involves not only the ratio of adult benefits to child benefits, but such questions as: should all adults — everyone over eighteen? — be treated equally? Should second and third adults get less than the family head? How should single-parent families be treated? And so on. There are several social policy issues raised by these choices, including questions of *equity* and of *incentives* regarding family splitting or formation.

e) The possible ways in which personal *income* tax *thresholds* (where net taxes begin to be paid) might be brought into line with the supplementation thresholds (per (c) above). The possibilities include tax adjustments, supplement programme adjustments, or both. This problem relates to the goals of *simplification* and *rationalization* (or harmonization) of the two systems. Such adjustments are needed to avoid (or minimize) *overlaps* (ranges of income where *both* taxation and

supplementation take place) and to alleviate undesirable incentive problems where the *effective* income tax and benefit reduction rates add together.

f) The treatment of other forms of income maintenance benefits (housing subsidies, Unemployment Insurance, Workmen's Compensation, CPP, QPP, disability benefits and so on). Clearly, these programmes could continue and could be viewed as alternatives to support or supplementation; *or,* their benefits could be "treated" like other income by the support/supplement systems under study; *or,* some could be significantly restructured in light of new support/supplementation programmes.

These are a number of the issues that must be explored in detail as the options are developed further. The issue at hand is that, although many such questions will likely be raised as soon as values (or numbers) are attached to options, some illustrative figures *are* required at this stage in order to make the options concrete enough to be understood and to allow even rough cost comparisons.

2. *Basic Behavioural Assumption*

Before dealing with these programme issues, however, it is best to make clear that the estimates and evaluation which follow assume no behavioural change as a result of the programme. The estimates are measurements of the first impact of benefits and tax changes on the present incomes and work habits of Canadians. How the existence of a generally available income support and supplementation system would change Canadian work habits, and how this would effect individual and national income, is *not assessed* in this Report.

There are three reasons for this. First, neither theoretical analysis nor empirical experiments to date suggest that such a general programme would have significant results in either direction. Both the arguments and evidence have mixed conclusions and no major study suggests that all shifts in work effort would be in one direction.

Second, each of the options suggested would provide financial incentives acting in both directions so the net result is difficult to assess. It is not likely that any present social assistance recipient would be worse off with respect to incentives to work under any of the options proposed. For most recipients, direct financial incentives would be provided and in all of the options outlined an individual would be better off by working. Those now working, but with inadequate incomes, would receive some assistance and considerable income protection under all options. The marginal tax rate they encountered when increasing their work effort would decline in some cases and increase in others (from perhaps 20 percent to between 30 and 50 percent). Even where marginal rates increase, average income taxes would be reduced (and the average reward from working increased). Most options also propose that the supplement be calculated on a family or quasi-family basis. This factor should reduce any tendency for secondary earners, in the non-recipient population, to substantially alter their work patterns.

Finally, any short-term attempt to assess the probable behavioural effects is essentially arbitrary and such arbitrary assessments are perhaps better made in light of these impact cost comparisons.

3. Maximum Benefit Assumptions

After assuming unchanged behaviour for the initial cost estimates, perhaps the most important assumption is for the basic guarantee or maximum benefit level for the "average family of four". This assumption influences all options and in all examples which follow the figure used is $4,800. It is drawn from the *Summary of Low Income Measures* presented on page 33 and is suggested as an *illustrative* national average (neither a maximum nor a minimum).

While not intended as a recommendation, the $4,800 support level seems a reasonable figure for estimation purposes since it is:

— above the unweighted average of social assistance maxima across Canada in July, 1974, and well above levels in lower-benefit provinces,

— similar to "benchmarks" such as half of average earnings in manufacturing, the O.A.S./G.I.S. support level, and the Federal Minimum Wage (plus current Federal Family Allowances in all cases),

— significantly below the updated Senate "Poverty Line", Statistics Canada's "Low Income Line" updated by price change, and the Median Income of Canadian Families.

As is indicated in (d) above, how the maximum benefit is divided among family members can have serious effects on costs, incentives and other social issues. Since at this stage behaviour is assumed constant and the same pattern is used for all options, the figures used in these first cost estimates are:

— $1,700 for those 18 years of age and over;

— $700 for children (under 18).

Thus, the $4,800 breaks down into 1700/1700/700/700. The Child Benefit options also show $700 per child, to maintain a common basis for illustration. Other configurations *will* be examined (including differentials for first and second adults, first and second children) when selected options are further developed. For the moment, two arguments are offered for the simple breakdown suggested:

1) Cost estimates can be generated much more easily and quickly if there are fewer degrees of differentiation; it was thought important to have at least some estimates at this stage;

2) The *split* of 1700/1700/700/700 is very close to the adult/child ratios suggested in some poverty studies. The amount of $700 for children is close to results presented in studies attempting to assess the true minimum costs of raising a child.

The division of benefits in the supplementation part of the programmes raises even more complex questions. While a number of alternatives are possible, a rule of proportionality (that is, maintain the adult/child ratio at 1700/700) has been used in the present estimates.

4. Reduction Rate Assumptions

With respect to tax-back rates, there is obviously a wide range of possibilities. In general, the lower the rate — given a guarantee level such as the $4,800 example — then the better the incentive feature (reward for working), *but* the greater the income range over which benefits apply. The greater this income range, the greater the total cost of benefits (and more beneficiaries), and the more difficult (costly) would be rationalization with personal income taxation. There is a clear trade-off between *costs* and *incentives*, at least in

terms of the structure and first impact of any option. To the extent that incentives cause desirable behavioural changes *or* to the extent that an initially cheaper (but poor-incentive) structure would inhibit work choices, then the true "extra" cost would, in the long run, be less.

While an infinite variety of rate structures is possible, two support and two supplement variations are shown, where applicable, to illustrate the effect of such choices. The reduction rate in the support system has been set at either 100 or 75 percent. Associated with the 100 percent support rate is a supplement reduction rate of 33⅓ percent, with a breakeven point of $5,120 (or $5,600 including Federal Family Allowances). The supplement rate associated with the 75 percent support rate is 37½ percent, which a breakeven of $6,720 ($7,200 including Federal Family Allowances). For the single-rate, combined support/supplement system, a 50 percent reduction rate is used.

It should be noted that all existing social assistance schemes have adopted a practice of allowing some *exemptions* from income — equivalent to a zero percent rate bracket — before assistance benefits are reduced. A typical figure might be $50 per month or $600 per year (some provinces have double this amount). This feature has *not* been built into the explanation of the options or the cost estimates at this stage. Clearly, exemptions cost money: they push out the breakeven income thresholds and, thereby, add to costs by paying higher benefits to some recipients and by bringing additional recipients into the system.

5. Eligibility Assumptions

One of the most difficult questions in preparing comparisons of options concerns the appropriate eligibility rules to use in comparing limited access options. Not only has there been no decision on this question, but available data lend themselves poorly to the kind of determination used in most current programmes. To prepare estimates, however, some assuptions about eligibility were required. The choices were made only to facilitate first run estimates; the criteria used should not be viewed as programme or policy recommendations.

The combined support/supplementation option is presented in two ways. First, all individuals and families are assumed to be eligible for assistance. This *OPEN ACCESS* case would encompass 100 percent of the population in families where no member is 65 years of age or older. Second, *the OVER* 30's, all individuals and families are assumed to be eligible *unless* the head is under 30 years of age and is not disabled and has no children. The exclusion of students, strikers and "healthy young people generally" is frequently suggested; this measure presents an *approximation* of the kinds of savings such exclusions might involve. This rule leaves 81 percent of the support units and 92 percent of the population in the "young family units" eligible.

Where separate support and supplementation systems are suggested, two sets of eligibility criteria have been provided for access to full support. First, the *OVER 30's,* all individuals and families are assumed to be eligible unless the head is under 30 years of age and is not disabled and has no children. Second, for the *LIMITED ACCESS* case, estimates are based on rules relating to age, disability and family structure which allow only about 24 percent of the population to have access to full support. These rules seek to simulate the stricter sort of current programme rules and probably provide a minimum

cost estimate in that sense. In common terms, this population includes those who "really need help" and the estimates bear that out.

There have also been two sets of eligibility criteria assumed for the supplementation component. Supplementation is assumed to be provided on either an *OPEN ACCESS* basis or to the *OVER 30's*.

For the child-related benefits, Options 4, 5, and 6, only families with children under 18 years of age were considered eligible.

6. *Presentational Assumptions*

To limit the exercise to manageable proportions at this stage, only a few of the many possible benefit structures were selected as prototypes. Hopefully they serve to illustrate adequately the rough orders of magnitude involved in each option and to provide a first indication of some of the design trade-offs as they relate to costs.

It is assumed that any structure under consideration would not be more generous than, and therefore could not replace — at least initially — the OAS/GIS structure for the aged. Therefore, all estimates apply to families (and individuals) where all family members are *under the age of 65*. Given this caveat regarding coverage, the estimates that have been prepared have the following basic elements:

a) *The gross cost of support and supplementation benefits*. This is the amount that would be paid out to all eligible families who qualify for benefits because their incomes fall below the income "breakeven" levels as defined under each option.

b) The cost of bringing the income tax thresholds into harmony with the breakeven levels for supplementation. There are a variety of possible ways this could be done. The estimates shown assume *tax reductions or rebates* for the lower-income taxpayers, to the extent that would be required *if* full rationalization were to be accomplished. This approach does not apply to tax credit variants since they, by definition, achieve this rationalization automatically (as part of their essential design features); and

c) *Programme Offsets*

The gross benefits (under (a)) were estimated *as if no* other income maintenance payments were being received by these families (other than family allowances). In fact, close to $7 billion in various payments is being paid out (UIC alone is over $2.2 billion). Either these payments would be continued and taken onto account by the support/supplementation programmes (in which case the costs of the latter would be significantly reduced from the gross amounts), *or* some restructuring (and considerable cost saving) might be contemplated for them. In *either* case, the system as a whole would involve significant cost offsets.

B. SPECIFICATION OF THE FEATURES OF EACH OPTION AND A COMPARISON OF THEIR COSTS

1. Introduction

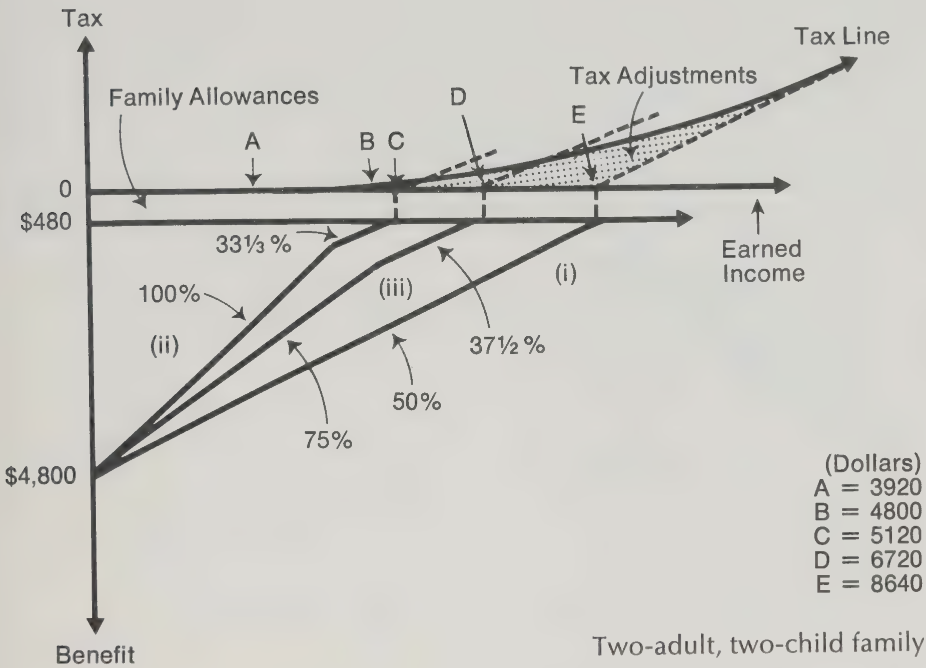
This section provides the following information for the options described in *Part III*.

1. A résumé of the specific benefit structures that were adopted for cost estimation;
2. The relevant diagram, brought forward from *Part III* but with specified benefit levels, rates, etc., added in; and
3. A comparison of the costs of the various options, with the costs separated into those associated with benefit payments and those that would take the form of the tax rebates or reductions necessary to produce full "harmonization" with the tax system.

The net cost of the income support/supplementation options presented here would range anywhere from less than one-quarter of a billion to something more than three billion dollars depending not only upon the several options but also upon various design characteristics within each option. Therefore, rather than showing the estimated costs for each option, which could be misleading, an indexed presentation of the relative costs is presented.

The limitations outlined here suggest that a considerable degree of caution should be exercised in the use of these estimates. A great many decisions on programme design characteristics and interrelationships with other programmes are required before much more refined estimates become possible. With these factors in mind, however, it is believed that the broad magnitudes presented, the relative positions as between basic options, as well as between the significant structural variations, are reliable enough for first impressions.

OPTION 1: A COMBINED SUPPORT/SUPPLEMENTATION SYSTEM



Benefits and Structure

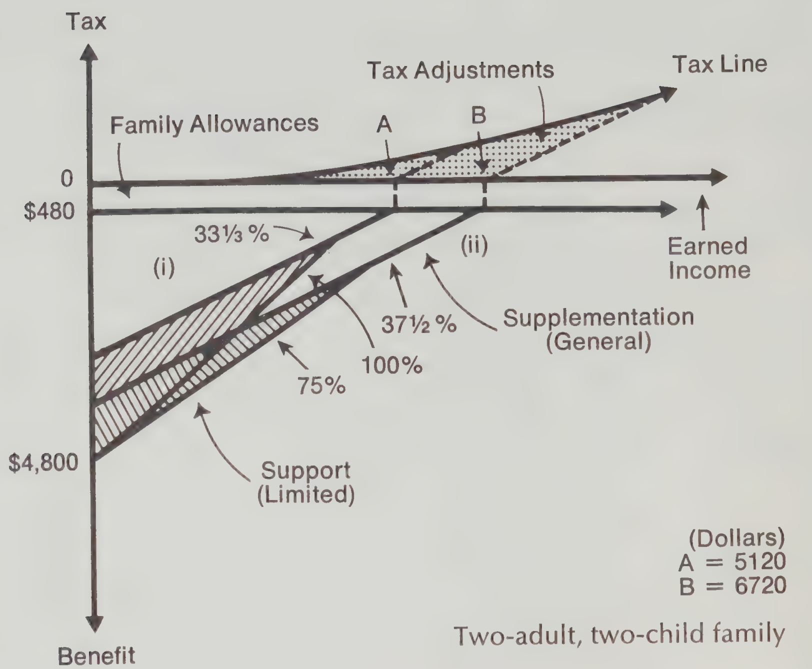
— $4,800 guarantee level for family of four: $1,700 per adult; $700 per child (*including* current Federal Family Allowances).

Three Rate Structures

(i) Single *50%* tax-back rate throughout;

(ii) *100%* over income range up to $3,920 of earnings; *33⅓%* over second income range. Structure chosen so that the *breakeven* level of income for the family of 4 is equal to $5,600 (less Federal Family Allowances of $480, giving $5,120 of earnings);

(iii) *75%* over income range up to $4,800 of earnings; then *37½%* up to breakeven level of $7,200 (less Federal Family Allowance of $480, giving $6,720 of earnings).



Two-adult, two-child family

Benefits and Structure

— $4,800 full support level for family of four: $1,700 per adult; $700 per child (including current Federal Family Allowances).

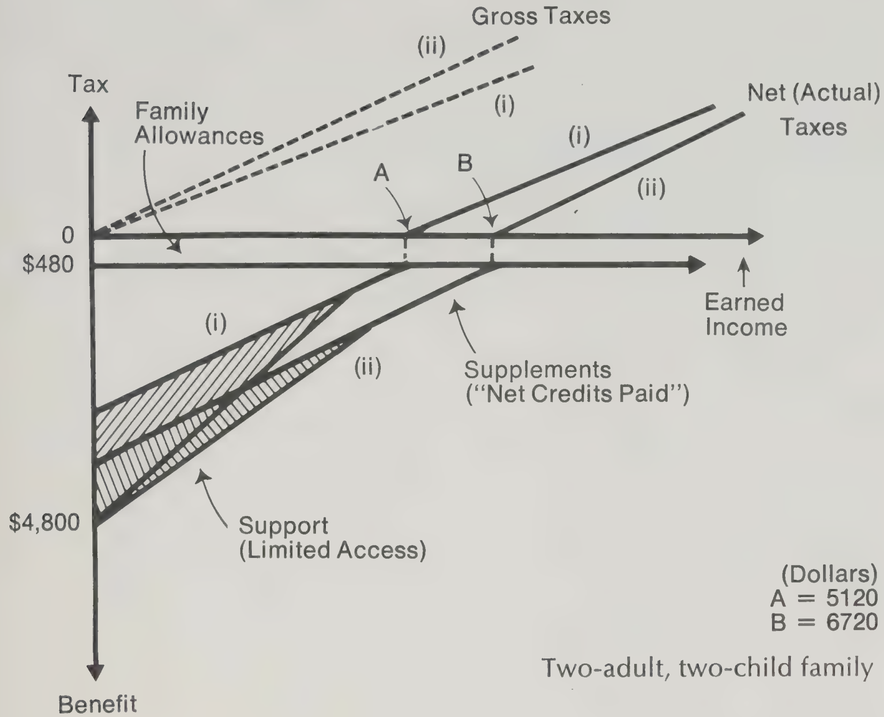
Eligibility

— access to the full *support* level is limited.

Two Rate Structures

(i) 33⅓% in supplementation part
100% in support part
(ii) 37½% in supplementation part
100% in support part

OPTION 3: INCOME SUPPLEMENTATION THROUGH REFUNDABLE TAX CREDITS



Two-adult, two-child family

Benefits and structure

— the same support and supplementation benefit structure as in Option 2, with the supplements paid as "net tax credits" (gross taxes less available tax credits).

— the tax-back rate for supplementation is automatically the same as the gross tax rate in income tax.

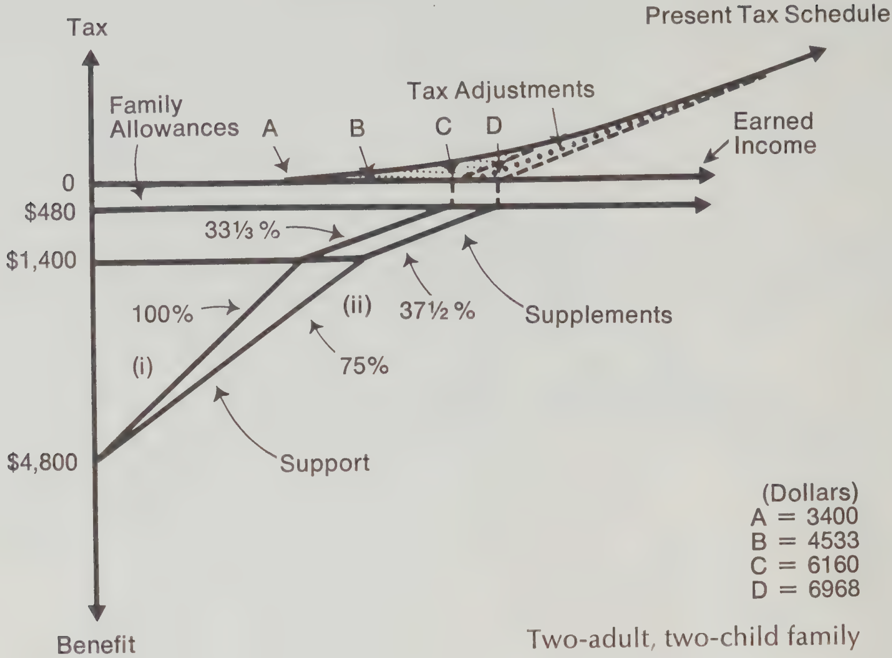
— *NO* personal income tax exemptions.

Eligibility

— access to full support level is limited.

Two Rate Structures

— same as in Option 2.



Benefits and Structure

- $240 per year Family Allowance, plus $460 per year income-tested supplement, for a total of $700 per child.
- $4,800 full support level for a family of four.
- tax-back rate in the supplement part begins at an income level that is coordinated with the full support part of the system.

Eligibility

- access to the full support level may be limited.

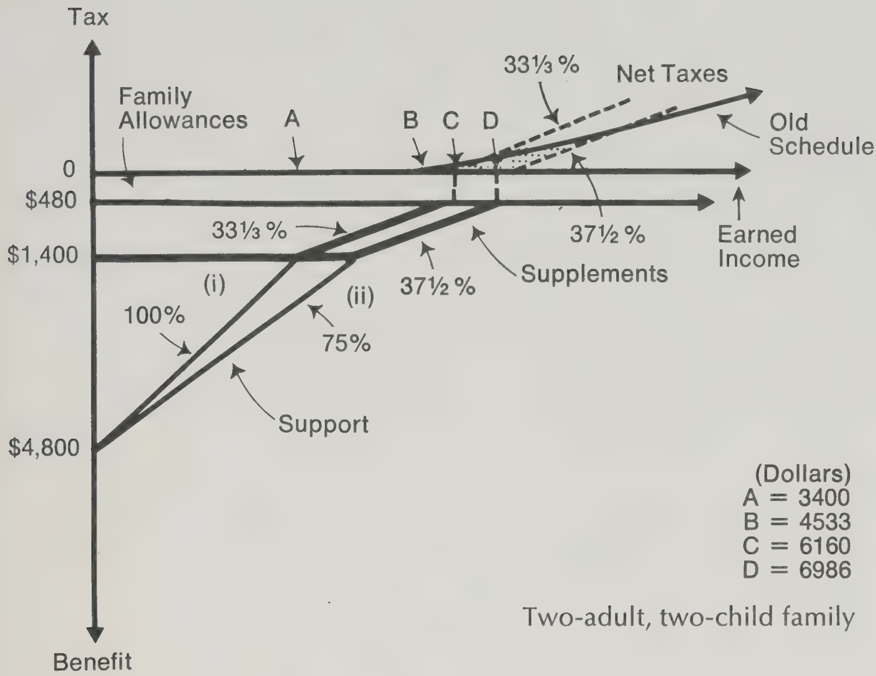
Two Rate Structures

(i) Supplementation
- 0% to $3,400 of earnings
- 33⅓% thereafter

Support; 100%

(ii) Supplementation
- 0% to $4,533 of earnings
- 37½% thereafter

Support; 75%



Benefits and Structure

— $240 per year Family Allowance, plus a $460 per year refundable Child Tax Credit, for a total of $700 per child.

— there would be no children's tax exemptions.

— $4,800 full support level for a family of four.

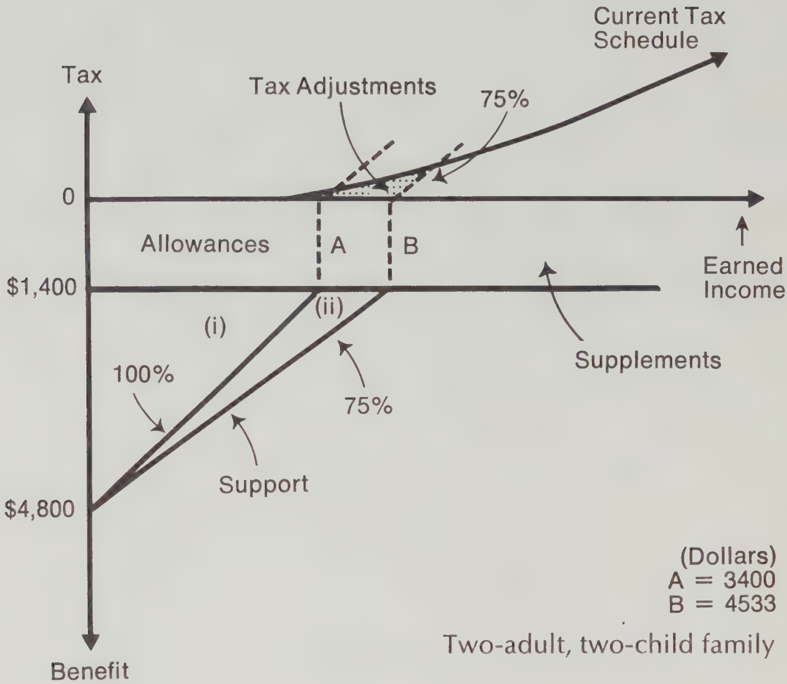
— the income level at which the supplementation begins to reduce is coordinated with the full support part of the system.

Eligibility

— access to the full support level may be limited.

Two Rate Structures

— same as in Option 4.



Benefits and Structure

— $700 per year Family Allowance per child under 18 years of age.
— $4,800 full support level for a family of four.

Eligibility

— access to the full support level may be limited.

Two Rate Structures

(i) 100% in support part
(ii) 75% in support part

3. Summary of Design Features, Potential Cost Offsets and Cost Comparisons

This section presents the cost comparisons for a range of benefit structures and eligibility rules for the six basic options for support/supplementation previously described. It should be emphasized that in no case do these estimates represent recommended programmes; their purpose is to demonstrate how the costs would differ across a range of benefit structures and eligibility rules.

The costs have been estimated on an impact basis, that is, on the assumption that no behavioural change in work habits results from the introduction of a general income support/supplementation system. Since available experimental evidence and theoretical analysis does not indicate a clear and significant change in work incentives, this appears to be a reasonable first assumption. As more detailed programmes are developed, the analysis of alternative assumptions about behavioural change will be required.

The following comments summarize the basic assumptions used with respect to benefit structures, eligibility, tax adjustments and cost offsets. More detailed discussions of these technical points are included in Appendices B and C.

a) *Benefit Structures*

The benefit structures used were not chosen to represent preferred programme choices, but as examples of the range of feasible variations. In all cases, the maximum support level used is $4,800 (for the average two-parent, two-child family). As indicated earlier, this is not proposed either as a minimum or a recommendation, but as a hypothetical representation of the average level that might apply across Canada (in 1974) under the various options. Actual rates can and undoubtedly will vary substantially above and below this to reflect regional and/or local conditions and concerns. It should also be noted that these presentations are in terms of the benefits necessary to meet average or "normal" family requirements. Special needs, long-term special requirements, or emergency assistance would be additional in all options.

The two sets of reduction rates suggested for the full family options are intended to show minimum and relatively generous structures respectively. The 100 percent/33⅓ percent structure represents one of the lowest-cost combinations that would still provide "room" for supplementation (with reasonable incentives) for the working poor. The 75 percent/37½ percent structure presents a more generous combination for both support and supplementation. The single, 50 percent reduction rate structure is shown because of its common use in the academic literature on the subject, and in order to provide an indication of cost sensitivity to significant rate changes.

Many other important issues of programme design remain to be determined. Questions of income definition, support unit definition and accounting systems can and will have an important impact on the costs of any eventual proposals. For the moment, they are determined primarily by the available data rather than by desirable programme design characteristics. Since the same design choices were made for all options, they should not substantially affect comparisons between them.

b) *Eligibility*

Three "eligible" populations have been used to demonstrate the range of

cost changes that can result from changes in eligibility rules. Their boundaries are a compromise between potential programme standards and available data. In the first case — called *Open Access* in Table 9 — all families with all members under 65 are eligible to have their incomes tested. As noted earlier, it is assumed that present programmes for the elderly will continue to meet their particular income requirements. In the second case — labelled the *Over 30's* — costs are presented as if only the disabled, families with children, and individuals and couples over thirty were eligible to apply for regular benefits. Thirdly, the *Limited Access* population is based on rules relating to age, disability and family structure. In common terms, the eligible population under this rule are those who are often considered to be "unable or unexpected to work". It will be seen that reducing the eligible population to one-quarter does not reduce costs proportionately. This reflects the obvious fact that a much greater percentage of such people have very low incomes, compared to the population at large. Here, as in all other cases, the choice is an estimating decision not a policy recommendation.

For the child-related benefits, only families with children under 18 years of age were considered eligible. Approximately 79 percent of the population are in such families.

c) *Tax Adjustments*

A substantial part of the estimated gross costs is the tax adjustments or rebates that would be required to harmonize the tax and benefit systems. An almost infinite range of tax adjustments is possible, and the method used, in all but the tax credit cases, is one of the simpler way of making cost estimates in a manner that would avoid notches or gaps within or between the tax and benefit systems.

The present tax structure is based on the 1974 Federal Tax Schedule and assumes all provinces express their rate as 33 percent of the federal tax. The adjustment mechanism used to approximate the costs of coordinating tax and benefit systems assumes that the reduction rate in the benefit structure is carried above the earnings line until it intersects with the present tax schedule. Any taxes currently payable above the extended line are "refunded" (or taxes are reduced) to all affected taxpayers and the difference is shown as a possible tax adjustment. While this method may not produce a desirable tax schedule, it provides a reasonable and comparable method of assessing the probable tax adjustment as between options.

In the tax credit cases, tax rates of 33⅓ or 37½ percent are assumed to apply in all cases up to the point where similar rates would be found in a 1974 "average" federal-provincial schedule. This implies either a 33⅓ percent rate with tax reductions up to $13,000 (for an average family of four) or a 37½ percent rate with reductions up to about $15,000. To avoid any tax increases resulting from this simplified tax credit system, whenever these assumptions imply a tax schedule higher than the 1974 "average", the difference is "refunded" and added to the tax adjustment costs (this applies mainly to individuals and couples).

Only in Option 6, the increased Family Allowances, do the estimates provide for increased tax collections as a reduction of gross costs. The full $700 per child allowances is assumed taxable in these cases.

Finally, it should be emphasized that all figures shown are relevant for

1974. Structural changes in the tax system — for example, significant increases in tax thresholds (exemptions) — would reduce the costs of these options in respect of necessary further tax adjustments.

d) *Potential Cost Offsets*

The gross cost comparisons made in this section have been derived as if only private income, Family Allowances, and by implication Old Age Security, the Guaranteed Income Supplement and similar provicial programmes for the aged were available to maintain Canadian incomes. This is clearly not the case. As was shown in *Part I,* Section D above, a variety of income maintenance systems are in operation, and many subsidy programmes provide payments-in-kind equivalent to income.

Obviously a general income maintenance programme would not simply be added on top of these existing expenditures. In some situations, the existence of these other schemes will make general support and/or supplement payments unnecessary. In other cases, the benefits of the other programme will be assessed as income and reduce the general programme benefits. In still others, the existence of a general maintenance system will suggest elimination or restructuring of the other programmes. *Part II,* Section C, above introduces the full range of such interrelationships.

Present social assistance, except emergency needs and long-term special requirements, would likely be replaced to the extent that a new general maintenance system was equally generous. Based on the estimates presented in Table 4, page 30 this would suggest the possibility that perhaps $1½ billion of the gross cost of a new programme could be financed by direct programme replacement. The details of the assumptions and calculations used to allocate these offsetting funds among the various options is reported in Appendix C. In no case are the estimates intended to imply decisions or recommendations as to desirable programme interrelationships. Their purpose is to facilitate a comparison of the possible net costs of the support/supplementation options.

The social insurances, manpower allowances, and various compensatory payments could probably be adjusted to the extent they contained support elements. The bulk of these payments would probably be treated as income by, or as alternatives to, the income support/supplementation programmes, and would reduce gross costs accordingly. It has been assumed that at most half of these other payments are received by individuals eligible for income support or supplementation; this is probably a conservative estimate.

Subsidy elements in housing and other services, and certain treatment of students and other subsidized loans, could also lead to cost reduction in the general systems. The likely amounts in these programmes, and their relationship to the general maintenance programme, are impossible to assess at this stage. As a result, possible savings in these areas are not included in the estimates.

e) *Cost Comparisons*

Cost comparisons for the six options, and for various rate structures within each option, are presented in Table 9. To facilitate comparison, one particular net cost figure has been arbitrarily selected for the base. The net cost figure for Option 1, when there is Open Access and a 75 percent/37½ percent reduction rate structure, has been set equal to one hundred (100).

All other cost figures in Table 9 should be interpreted relative to this particular net cost figure.

Examples

(i) To compare the impact of changing the eligibility criteria, within any option

For: — Option 1

— 75 percent/37½ percent rate structure

An eligible rule that included only the Over 30's, rather than Open Access, should have a net cost equal to 88 percent of the Open Access net cost.

(ii) To compare the net cost of different options. For:

Case 1	*Case 2*
— Option 1	— Option 2
— 75 percent/37½ percent rate structure	— 75 percent/37½ percent rate structure
— Open Access	— Open Access to supplementation with the Over 30's eligible for support

The case 2 net costs should be 93 percent of the case 1 net costs.

(iii) To compare the components of gross costs.

For: — Option 1

— Open Access

— 75 percent/37½ percent rate structure

The possible tax adjustment accounts for 31 percent of estimated gross cost (62/200).

Such comparisons can be made both within and across all options. It must be remembered that a simple comparison of the possible costs is not adequate, however, since each option implies that different groups of people are excluded (and may need help from the "backup" system). In addition, these are only estimates of the impact cost and they do not anticipate any behaviour changes.

TABLE 9

COMPARISONS OF BENEFITS, TAX ADJUSTMENTS AND COSTS*

OPTION 1: COMBINED SUPPORT/SUPPLEMENTATION SYSTEM

	RATE STRUCTURE			
	(i)	(ii)	(iii)	
a) OPEN ACCESS	50%	100/33⅓%	75/37½%	ELIGIBILITY(1)
1. Benefits	200	144	138	100%
2. Possible Tax Adjustment	81	17	62	
3. GROSS COST	281	131	200	
4. Cost Offsets	−126	−90	−100	
5. NET COST	155	40	100(2)	
b) OVER 30's				
1. Benefits	171	98	121	92%
2. Possible Tax Adjustment	81	17	62	
3. GROSS COST	252	114	183	
4. Cost Offsets	−119	−88	−95	
5. NET COST	133	26	88	

** Figures may not add due to rounding.*

1. *Eligibility refers to the proportion of the population eligible to have their incomes tested and not to the proportion whose incomes are below the appropriate income thresholds and thus would actually receive benefits.*
2. *Index Base.*

TABLE 9 — (Cont'd)

OPTION 2: INCOME SUPPLEMENTATION THROUGH TRANSFER PAYMENTS

	RATE STRUCTURE		
	(i) 100/33⅓%	(ii) 75/37½%	ELIGIBILITY
a) OPEN ACCESS SUPPLEMENTATION AND SUPPORT TO OVER 30's			
1. Benefits			
Supplement	48	86	100%
Support	55	45	92%
2. Possible Tax Adjustment	17	62	
3. GROSS COST	119	193	
4. Cost Offsets	−90	−100	
5. NET COST	29	93	
b) OPEN ACCESS SUPPLEMENTATION AND LIMITED ACCESS SUPPORT			
1. Benefits			
Supplement	48	86	100%
Support	29	24	24%
2. Possible Tax Adjustment	17	62	
3. GROSS COST	93	171	
4. Cost Offsets	−81	−90	
5. NET COST	12	81	
c) SUPPLEMENTATION TO OVER 30's AND LIMITED ACCESS SUPPORT			
1. Benefits			
Supplement	43	76	92%
Support	29	24	24%
2. Possible Tax Adjustment	17	62	
3. GROSS COST	88	162	
4. Cost Offsets	−79	−86	
5. NET COST	10	76	

TABLE 9 — (Cont'd)

OPTION 3: INCOME SUPPLEMENTATION THROUGH REFUNDABLE TAX CREDITS

a) OPEN ACCESS SUPPLEMENTATION AND SUPPORT TO OVER 30's	RATE STRUCTURE (i) 100/33⅓%	RATE STRUCTURE (ii) 75/37½%	ELIGIBILITY
1. Benefits			
Credit Paid Out	48	90	100%
Support	55	43	92%
2. Tax Loss from Conversion	19	71	
3. GROSS COST	121	205	
4. Costs Offsets	−90	−100	
5. NET COST	31	105	
b) OPEN ACCESS SUPPLEMENTATION AND LIMITED ACCESS SUPPORT			
1. Benefits			
Credit Paid Out	48	90	100%
Support	29	21	24%
2. Tax Loss from Conversion	19	71	
3. GROSS COST	95	183	
4. Cost Offsets	−81	−90	
5. NET COST	14	93	
c) SUPPLEMENTATION TO OVER 30's AND LIMITED ACCESS SUPPORT[3]			
1. Benefits			
Credit Paid Out	43	81	92%
Support	29	21	24%
2. Tax Loss from Conversion	19	71	
3. GROSS COST	90	174	
4. Cost Offsets	−79	−86	
5. NET COST	12	88	

3. *This estimate implies that those under 30, physically able and without children would be unable to cash their tax credits.*

TABLE 9 — (Cont'd)

OPTION 4: INCOME-TESTED CHILD ALLOWANCE

a) SUPPLEMENTATION TO ALL WITH CHILDREN[4] AND OPEN ACCESS SUPPORT	RATE STRUCTURE (i) 100/33⅓%	RATE STRUCTURE (ii) 75/37½%	ELIGIBILITY
1. Benefits			
Supplement	33	38	79%
Support	88	105	100%
2. Possible Tax Adjustment	52	67	
3. GROSS COST	174	210	
4. Cost Offsets	−81	−81	
5. NET COST	93	129	

b) SUPPLEMENTATION TO ALL WITH CHILDREN AND SUPPORT TO OVER 30's	(i) 100/33⅓%	(ii) 75/37½%	ELIGIBILITY
1. Benefits			
Supplement	33	38	79%
Support	71	83	92%
2. Possible Tax Adjustment	52	67	
3. GROSS COST	157	188	
4. Cost Offsets	−81	−81	
5. NET COST	76	107	

4. *Seventy-nine percent of the OPEN ACCESS population are in families with children and are thus eligible for supplementation in the child related options.*

TABLE 9 — (Cont'd)

OPTION 4: INCOME-TESTED CHILD ALLOWANCE — (Cont'd)

c) SUPPLEMENTATION TO ALL WITH CHILDREN AND LIMITED ACCESS SUPPORT	RATE STRUCTURE (i) 100/33⅓%	RATE STRUCTURE (ii) 75/37½%	ELIGIBILITY
1. Benefits			
Supplement	33	38	79%
Support	38	43	24%
2. Possible Tax Adjustment	52	67	
3. GROSS COST	124	148	
4. Cost Offsets	−57	−57	
5. NET COST	67	90	

TABLE 9 — (Cont'd)

OPTION 5: REFUNDABLE CHILD TAX CREDITS

	RATE STRUCTURE		
	(i) 100/33⅓%	(ii) 75/37½%	ELIGIBILITY
a) SUPPLEMENTATION TO ALL WITH CHILDREN AND OPEN ACCESS SUPPORT			
1. Benefits			
Credits	36	43	79%
Support	86	102	100%
2. Tax Loss from Conversion	62	83	
3. GROSS COST	183	229	
4. Cost Offsets	−81	−81	
5. NET COST	102	148	
b) SUPPLEMENTATION TO ALL WITH CHILDREN AND SUPPORT TO OVER 30's			
1. Benefits			
Credits	36	43	79%
Support	69	81	92%
2. Tax Loss From Conversion	62	83	
3. GROSS COST	167	207	
4. Cost Offsets	−81	−81	
5. NET COST	86	126	
c) SUPPLEMENTATION TO ALL WITH CHILDREN AND LIMITED ACCESS SUPPORT			
1. Benefits			
Credits	36	43	79%
Support	36	40	24%
2. Tax Loss from Conversion	62	83	
3. GROSS COST	133	167	
4. Cost Offsets	−57	−57	
5. NET COST	76	110	

TABLE 9 — (Cont'd)

OPTION 6: INCREASED FAMILY ALLOWANCES (DEMOGRANTS)

a) SUPPLEMENTATION TO ALL WITH CHILDREN AND OPEN ACCESS SUPPORT	RATE STRUCTURE (i) 100%	RATE STRUCTURE (ii) 75%	ELIGIBILITY
1. Benefits			
Increased Allowance	162	162	79%
Support	88	105	100%
2. Net Tax Recoveries[5]	−48	−45	
3. GROSS COST	202	221	
4. Cost Offsets	−81	−81	
5. NET COST	121	140	

b) SUPPLEMENTATION TO ALL WITH CHILDREN AND SUPPORT TO OVER 30's	(i) 100%	(ii) 75%	ELIGIBILITY
1. Benefits			
Increased Allowance	162	162	79%
Support	71	83	92%
2. Net Tax Recoveries	−48	−45	
3. GROSS COST	186	200	
4. Cost Offsets	−81	−81	
5. NET COST	105	119	

5. *Tax recoveries from the "gross cost" far exceed the tax adjustment costs, thus a negative entry.*

TABLE 9 — (Cont'd)

OPTION 6: INCREASED FAMILY ALLOWANCES (DEMOGRANTS) — (Cont'd)

c) SUPPLEMENTATION TO ALL WITH CHILDREN AND LIMITED ACCESS SUPPORT	RATE STRUCTURE		
	(i) 100%	(ii) 75%	ELIGIBILITY
1. Benefits			
Increased Allowance	162	162	79%
Support	38	43	24%
2. Net Tax Recoveries	−48	−45	
3. GROSS COST	152	160	
4. Cost Offsets	−57	−57	
5. NET COST	95	102	

V. Conclusions: Next Steps for Policy Research and Evaluation

The Working Party on Income Maintenance had, in February, 1974, put forward three families of approaches and asked that a choice be made among them. This Report has outlined the options possible within the chosen family and asks for a further choice among them. The development of any major new programme to the stage where its operational characteristics can be defined and assessed is a major and difficult task. The Working Party does not feel this can be accomplished for all six options before the intended date for completion of the Review.

The descriptions, analysis and first-pass financial evaluation presented in this Report should provide a basis for the narrowing of options. The Working Party had originally intended to evaluate the options against a series of non-financial criteria as well. On examination, these proved to be largely a function either of benefit level, eligibility rules or method of administration, at least as far as they could be articulated at this stage. These non-financial issues are reviewed briefly in Appendix A to this Report. Further evaluation of those dimensions should be possible — and will be attempted — in the next stage of the Review.

Questions of administration, finance and jurisdiction will also become increasingly important as the Review progresses. That discussion is introduced below, via a summary of the administrative possibilities implicit in the major support/supplementation options. The Report then concludes with an outline of the next steps required in the Income Maintenance sector of the Social Security Review.

A. ADMINISTRATIVE POSSIBILITIES FOR THE OPTIONS

The administration of the options is outlined here in the context of the system's delivery mechanisms. It is not the intention, implied or otherwise, to forecast the attachment of financing responsibilities to the administering agencies or levels of government. The object of this section is to consider which aspects of the various options lend themselves to a particular form of administration, independent of such financial considerations. In all cases it is assumed that any additional "emergency" or "special needs" assistance would continue to be administered by the existing provincial (or municipal) agencies. This assumption is considered valid due to the "needs-tested" nature of such benefits.

Option 1: Combined Support/Supplementation System

This option could be administered solely by the provincial authorities (as is currently the case with social assistance) or solely by the federal authorities (as with GIS). Since the option does not differentiate according to eligibility and benefit levels, different administrations could lead to inequities between different groups of beneficiaries. Thus, a single administration seems appropriate and desirable. However, if *part* of the benefit were to be delivered with simple accounting and income definition rules (through the tax system, for

example), while additional support was delivered via another technique (perhaps with more comprehensive income rules), then divided administration becomes feasible.

Option 2: Income Supplementation Through Transfer Payments

While either the supplementation *or* support system could be administered (in principle) by either the federal or the provincial authorities, it would be reasonable for the provinces to administer at least the support system, since they have already developed administrative machinery for the relevant target groups and could adapt that machinery to deliver income-tested support. This would be especially true if eligibility for full support were dependent upon "employment" or "employability" criteria that required direct contact with the recipient.

If all recipients of support payments were also receiving supplementation benefits under another income-tested programme (using the same or similar income and support unit definitions and accounting systems), it would in all probability be more efficient for both parts to be administered by the same agency. However, if the supplementation benefit were administered with simpler income definitions, etc., because of the larger group covered, a separate administration by a different level of government would be possible.

Option 3: Income Supplementation Through Refundable Tax Credit

As with the other options the support system would probably be best administered via reformed provincial programmes. Since the supplementation programme would be, however, an integral part of the personal income tax system, it could be administered under federal jurisdiction and using federal tax machinery (or both federal and provincial machinery in the case of Quebec). The employer could deliver the credit for those employed, while UIC could perform that function for those receiving unemployment insurance. For those receiving neither employment income nor unemployment insurance, the credit could either be delivered via a special branch of the income tax agency (which might also deliver supplementation to the self-employed, if eligible) or by the provincial agency that administered the support payment.

Option 4: Income-Tested Child Allowances

The arguments as to which agency should administer the allowances of this system are not as clear cut as those under the other options. The provincial authorities would seem to have a comparative advantage in that they would likely be administering support payments under an equivalent set of procedures and definitions. On the other hand, this option is in a sense an "extension" of Family Allowances and as such might lend itself to administration by the same federal agency as current Family Allowances (in a manner similar to the Guaranteed Income Supplement).

Option 5: Child Tax Credits

The arguments concerning federal administration of the credits in this option are identical to those of option 3 above.

Option 6: Increased Family Allowances

The increased Family Allowances in this option would most naturally be administered by the existing federal agency, with the precise configuration of allowances subject to federal/provincial agréement as at present. It is recognized, however, that provincial participation in this option *could* take the form of separate provincial allowance payments machinery.

B. NEXT STEPS

Up to this point in the Review, most work on the income maintenance front has been towards describing the general characteristics of and most obvious differences between the various options, and on providing cost estimates (for comparative purposes alone) based only on the overall design of these options. As the Review continues, not only must the existing analysis of the major design elements be refined and expanded but considerably more effort must be expended on a variety of aspects that have not been given detailed consideration, thus far. In this latter category fall such areas as the public acceptability of each remaining option, its administrative structure and feasibility, and the questions of finance and jurisdiction which become answerable as specific proposals are analyzed. While these may not fall directly within the jurisdiction of the Working Party *per se,* the subsequent evaluative work that the Working Party would pursue in any case will naturally relate closely to such concerns and will have to take them increasingly into account.

1. Continued Evaluation of Support/Supplementation Options

As has been pointed out throughout this Report, much additional evaluation of the remaining ("surviving") support/supplementation options will be required. On the financial side, this will involve refining the existing estimates and generating new estimates under different assumptions (concerning such matters as tax treatments, for example) and analyzing the incidence of benefits received and taxes saved by family type and income level. Only then will definitive statements be possible regarding the effectiveness and efficiency by which the detailed programme options would affect the basic income maintenance objectives. Further estimates and analysis may make use of more refined data and should incorporate more operational definitions of the support unit and the income base. The experience and assistance of tax authorities will be vital to our success in this latter area.

As for administrative questions, such factors as potential take-up rates and administrative costs require exploration. The latter, of course, must be preceded by a detailed specification of the administrative machinery for each remaining option.

For evaluation on the basis of non-financial criteria (as outlined in Appendix A), measures might be developed which identify such factors as the degree of incentive and the degree of stigma. Perhaps no definitive statement can be made about how recipients might react to particular sets of incentives, but an index might be developed on theoretical and judgemental grounds which would give some indication of the probable direction of such reactions.

2. Interrelationship with Social Insurance and Other Related Programmes

The role of social insurance in the overall income maintenance system must be analyzed in terms of each remaining option. Although it is true that social insurance programmes are generally directed at a broad population, while support/supplementation is aimed at only a sub-section of that population (i.e. those at the lower end of the income scale), considerable overlap now exists between major programmes; this phenomenon would increase substantially under the adoption of any general support/supplementation scheme. The issues were raised in some detail in *Part II,* Section C; work on these interrelationships can become more definitive and will intensify, as a result of the successful narrowing down of present options.

The nature of the interrelationships between support/supplementation and such income-in-kind programmes as public housing and subsidized daycare facilities warrants considerable care and attention. Again, Section C of *Part II* reviewed the issues in some detail. Work in this area must not only concern itself with specifics, such as the alternative stacking procedures available, but also with the overall concepts of a social security system. For these efforts to bear fruit, considerable liaison with the Working Party on Social Services and federal and provincial housing authorities will be required.

APPENDIX A
to
Progress Report
of the
Working Party
on Income Maintenance

NON-FINANCIAL CRITERIA
FOR THE EVALUATION OF SUPPORT/
SUPPLEMENTATION OPTIONS

SUMMARY

NON-FINANCIAL CRITERIA FOR THE EVALUATION OF SUPPORT/SUPPLEMENTATION OPTIONS

SUMMARY

In any evaluation of the various options, a distinction must be made between those factors that result purely from the chosen parameter values and those that are inherent in the basic approach. Obviously almost any system can be made more desirable than another merely by establishing different benefit structures. Given that the system must be constrained to an acceptable level of cost, the main factors which depend upon the choice of benefit levels and reduction rates are:

1. The incentive to become employed,
2. The incentive to increase earnings once employed,
3. The income replacement potential.

These factors depend both upon the reduction rate of the programme and on the maximum available benefit.

Within the second category — concerned with criteria unrelated to the benefit structure — the main areas of concern are:

4. The degree of stigma,
5. The degree of simplicity for the beneficiary,
6. The total cost required for administration.

The degree of stigma will be a function both of the way in which the programme is administered and the degree of universality of coverage. Simplicity for the beneficiary will vary according to the number of programme parameters in the system as a whole, and on the amount and frequency of reporting necessary to receive benefits. The proportion of expenditures for administration will depend both upon the method and frequency of reporting and on the degree to which existing agencies and structures can be used to deliver benefits.

Some of these factors will, in turn, act to affect the financial cost of the programme. The greater the incentive the greater will earned income be and the less the costs of supplementation. Similarly, if the degree of stigma is small and the receipt of benefits "automatic" (as with credits and demogrants), both the "take-up" rate and the costs of the programme will be greater.

These six factors, then, are related to total programme costs, but are, nevertheless, conceptually separable from pure cost considerations. In principle, for example, alternative reduction rates — and thus different incentive effects — are consistent with the same total cost, providing of course some other parameters are permitted to change. These factors are further expanded upon below.

1. The Incentive to Become Employed

The incentive to become employed is a function of both the programme reduction rate and the maximum benefit available. Assuming that the act of taking a job will not put the recipient's income above the breakeven level of

the programme, then the greater the reduction rate the less the incentive and the greater the support level the less the incentive. Consequently, of two programmes having the same reduction rate, the one with the lower support level will have the greater incentive; similarly, for a given support level, the one with the lower reduction rate will have the greater incentive. However, if the programme with the higher support level also has the lower reduction rate, then the judgement concerning incentives cannot be made on *a priori* basis.

On an *ex ante* basis, an index could be constructed to give an indication of the relative degree of incentive to become employed under the various options. Whether or not the labour force reacts accordingly on an *ex post* basis, however, must be left to empirical verification. This index is the ratio of total income at some positive level of earnings (determined by the wage rate and the number of hours worked) and total income at zero earnings. The greater this ratio, the greater the (*ex ante*) incentive to become employed. In many cases, there will be a minimum number of hours required for a particular job on a weekly or monthly basis. On an annual basis, however, the number of hours can be varied by changing jobs or by leaving the labour force (or becoming unemployed) for a period of time.

2. The Incentive to Increase Earnings

As with the incentive to obtain employment, the *ex ante* incentive to increase earnings is a function of the support level and the reduction rate and can be represented either by the ratio of total income at one level of earnings to that at a higher level of earnings, or by the reduction rate on earnings over the applicable range. On an *a priori* basis, which of these would be the more accurate representation of that incentive cannot be determined.

3. The Income Replacement Potential

The income replacement potential is measured as the ratio of total incomes received at two different levels of earnings and can be thought of as a measure of the effectiveness of the programme in protecting incomes against unexpected declines in earnings. As earnings fall, the replacement potential is the ratio of total income at the lower earnings level to that at the higher level of earnings. The closer to unity is this ratio, the greater the replacement potential. When the ratio is one, all income has been replaced. It should be emphasized, however, that while a high replacement potential may be a desirable characteristic in terms of the income security of recipients, it necessarily is undesirable in terms of incentives. If the replacement ratio is unity as earnings fall from a higher to a lower level, then the effective tax rate that one faces when the original earnings opportunity reappears is, by definition, 100 percent.

4. The Degree of Stigma

In general, the broader the coverage of a programme the less will be the stigma attached to receiving benefits from it. For example, while there is no

social stigma currently attached to Family Allowances, this would probably not be the case if they were restricted to a particular sub-set of the population on the basis of such criteria as "need" or "income". Furthermore, the type of test to which the family is subjected before benefits are determined may also be taken as a measure of the stigma involved. In this light, then, all the options in the Report would be less stigmatizing than current social assistance if they were income-tested rather than needs-tested, and the child demogrant system would be the least stigmatizing of all since eligibility would be determined by a demographic characteristic rather than a test of financial resources.

While recipients of support benefits would tend to feel more stigmatized if eligibility for that programme were more restrictive than for supplementation, it is probable that extending benefits to the "working poor" would tend to reduce the stigma attached to all forms of social aid, be they income-tested or needs-tested, on the grounds that the "experience" would be shared by a larger proportion of society. This argument would also weigh in favour of those options delivered via the income tax mechanism since the benefits would be more automatically received, without a special application to an unfamiliar agency.

5. The Degree of Simplicity for the Beneficiary

The degree of simplicity of the system as a whole will depend on the number of separate programmes in the system, the number of different administrative offices the beneficiary must visit, and how benefits are determined within each programme. The more automatic the receipt of benefits (as with tax credits and demogrants) the greater the simplicity for the beneficiary.

6. Administrative Costs

The total cost going to administration will depend upon the degree to which existing agencies can be used to deliver the benefits and what cost savings can be realized by combining the functions of two or more operating agencies.

APPENDIX B
to
Progress Report
of the
Working Party on Income Maintenance

PROGRAMME DESIGN CHARACTERISTICS
ASSUMED IN THE
COST ESTIMATING MODEL

PROGRAMME DESIGN CHARACTERISTICS ASSUMED IN THE COST ESTIMATING MODEL

1. *Introduction*

The programme design characteristics assumed in the cost estimating model were chosen for the sole purpose of presenting the order of magnitude costs associated with the various support/supplementation options outlined earlier in this Report. These choices should not be interpreted as proposals for the various support/supplementation options; in fact, most of the design characteristics assumed in the model are not chosen but are dictated by the limited information available in the Survey of Consumer Finances. For the same reason, certain design characteristics which would be desirable in programme design terms cannot be estimated in the model.

This Appendix describes further the following design characteristics:

I. THE DATA BASE
II. ELIGIBILITY CRITERIA
III. INCOME DEFINITION
IV. SUPPORT UNIT DEFINITION
V. ACCOUNTING SYSTEM, AND
VI. BENEFIT STRUCTURES

used in cost estimating and the effects of other choices of design characteristics on the cost estimates; it also describes the income tax adjustment procedures used.

I. UNDER INCOME-TESTED SUPPLEMENTATION OPTIONS
II. UNDER TAX CREDIT SUPPLEMENTATION OPTIONS.

2. *Design Characteristics*

1. THE DATA BASE

The data base used in the estimates consists of two income distributions by family size — one distribution for two-parent families and the other for single-parent families and unattached individuals. The model computes the amount of support/supplementation benefits and the amount of income tax for each income group and family size classification on the basis of given support/supplementation structures and income tax schedules.

The income distributions were originally selected from a 1971 sample of census families obtained from Statistics Canada's Survey of Consumer Finances (SCF). The 1971 distributions were then projected to reflect 1974 circumstances by inflating incomes (at 8 percent annually) and the population (at rates based on past family size growth trends).

Since many structural changes have been made to various government transfer programmes since 1971, all incomes from government sources have been excluded from the income distributions. (The effect of this exclusion on cost estimates is discussed in the Section on Income Definition below).

At this stage, two factors influence the reliability of any cost estimating procedure using this data base:

a) The reliability of the 1971 SCF sample results (see the reconciliation with National Accounts in Table 1).

b) The assumption on income and population growth between 1971 and 1974.

Although the model can introduce various assumptions on growth patterns, it cannot adjust for sampling and non-sampling errors in the 1971 SCF results. It is also important to note that, while attention has been given to the incentive effects which may be implied by choices of design characteristics (i.e. the effects of the reduction rate on work incentives), the model does not account for behavioural changes that might result from the implementation of a support/supplementation programme.

II. ELIGIBILITY

There are three sets of income distributions presently available as input to the model with each set reflecting different eligibility criteria. They are described in order of decreasing size of the eligible population:

E1 — All Young Family Units (YFU's) — all families (including unattached individuals) with all adults under the age of 65. This group is intended to include all possible support units.

E2 — All YFU's *except* those where:

a) there are no children, and

b) head is under 30 years, and

c) head is not disabled.

The exclusion of students, strikers and "healthy young people generally" is frequently suggested. These conditions seek to approximate such rules. It leaves 81 percent of support units and 92 percent of the population eligible for income testing.

E3 — All YFU's with:

a) head aged 60 years or over, or

b) head disabled, or

c) single parent with children under 6 years, or

d) head aged 45 or over with two or more children under 18 years.

These conditions seek to simulate the stricter sort of current social assistance rules and probably provide a minimum estimate in that sense. In common terms it includes those who "really need help". Twenty percent of support units and 24 percent of the population are included. An estimate based on a 100 percent reduction rate for this distribution shows a cost equal to about 80-85 percent of current Canada Assistance Plan general assistance payments. In other words, this population approximates the cost of current general assistance, if special needs are excluded.

TABLE I

RECONCILIATION OF TOTALS OBTAINED FROM 1971 SURVEY OF CONSUMER FINANCE WITH NATIONAL ACCOUNT DATA

	SCF	NATIONAL ACCOUNTS	DIFFERENCE (NA-SCF)	$\frac{SCF}{NA} \times 100$
	(millions of dollars)			
Wages and Salaries	$48,715	$48,504	$−211	100.4
Military Pay and Allowances	41[1]		−41	
Non-Farm Income from Self-Employment	1,884	4,057	2,173	46.4
Farm Income	898	1,103	205	81.4
Roomers and Boarders	81	42	−39	192.9
Interest Dividends and Miscellaneous Investment Income	1,593	4,061	2,468	39.2
Family Allowances	657	694	37	94.7
OAS/GIS	1,962	2,114	152	92.8
CPP/QPP	159	157	−2	101.3
UIC	378	941	563	40.2
Social Assistance	590	616	26	95.8
Other Government Transfers	283	1,191	908	23.8
Retirement Pensions	992	823[2]	−169	120.5
Other Income	461		−461	
Taxes Paid	8,844	10,097	1,253	87.6
Total (Excluding Taxes)	$58,694	$64,303	$5,609	91.3

1. The Survey of Consumer Finances excludes those whose major source of income is military pay and allowances. The National Accounts have been adjusted to subtract $908,000,000 for this category.

2. National Accounts does not include trusteed pension plan payments. Pensions to government employees have been taken out of government transfers. This figure is comprised of:

Trusteed pension plans	
— cash withdrawals	*115*
— payments from funds	*482*
Pensions to government employees	*226*
	823

Effects on Cost Estimates:

1. None of the income distributions used in the model include families with adults 65 years or over. This exclusion was made on the assumption that most of these families would be eligible for OAS/GIS benefits and the amount of these benefits would presumably be sufficient to make them ineligible for support/supplementation benefits. There are, however, two groups of families with members 65 years of age or older who could be eligible for support/supplementation benefits under most support/supplementation options described in this Report:
   a) those who are ineligible for OAS/GIS benefits (usually on account of the residence criteria). In June 1972, this was slightly less than 1 percent of the population 65 or over; and
   b) those families with children under 18 years of age and for whom OAS/GIS benefits would be insufficient (0.6 percent of all children are in such families).

   The exclusion of families with adults 65 years and over in the model would tend to underestimate costs.
2. Actual programme designs may well include eligibility criteria that are neither discrete nor fully objective — e.g. some variant of an employability test. Relevant data are not contained in the 1971 SCF sample, so the use of "proxies" was necessary for current estimation purposes. Thus, the three populations described above representing about 100, 92 and 24 percent of the population respectively, are used to yield a range of cost approximations. The accuracy of the cost estimates are dependent upon the accuracy of these approximations, in terms of their similarity to actual eligibility rule proposals.
3. There are no data on assets available from the 1971 SCF sample results and therefore assets cannot be used as an eligibility criterion in the model. Whenever an asset limitation is proposed as an eligibility criterion for a support/supplementation option, programme costs would tend to be overestimated in this presentation.

III. INCOME DEFINITION:

All incomes from government sources (except wages and salaries and employee pensions) are excluded from the income base used. More specifically, the normal-income base used consists of the following sources:

a) Wages and Salaries
b) Military Pay and Allowances
c) Self-employment income; farm and non-farm
d) Income from Roomers and Boarders
e) Investment income
f) Retirement Pensions (excluding CPP/QPP)
g) Other money income

Although Family Allowances are excluded from the income base, the model

computes Family Allowances and includes them when computing support/supplementation benefits and income taxes.

Effects on Cost Estimates

With the exception of Family Allowances, no government transfers are included when computing support/supplementation benefits and income taxes in the model. Under all support/supplementation options, income from government sources such as CPP/QPP, UIC, Manpower Training Allowances, etc. would be included in the income base and in many cases would fully offset support/supplementation benefits (i.e. taxed at 100 percent). Other sources of income which may be included in the income base for the support/supplementation options and which are not included for the model are: imputed income from assets, gifts, inheritances, income-in-kind, etc.

The exclusion of income sources in the cost estimating model implies a substantial overestimate of support/supplementation programme costs, and, therefore, cost estimates generated by the model should be adjusted to account for excluded income sources.

IV. SUPPORT UNIT DEFINITION

The 1971 SCF sample results were compiled for *Census* families defined as: unattached individuals or married couples or married couples and all unmarried children living at home or single-parents and all unmarried children living at home. The income distributions extracted from these sample results and used as input for the model therefore refer to Census families. However, the proportion of children over 18 years within each income group and family size classification is known; using these proportions, the model assigns adult support levels and income tax exemptions to children 18 years or over. In effect, then, support levels and income tax exemptions are assigned on a basis equivalent to a *nuclear* family defined as: adults (18 years or over) or married couples or married couples and all unmarried children under 18 years living at home or single-parents and all unmarried children under 18 years living at home. Also, in single-parent families, the first child (under 18 years) is assigned an adult support level and tax exemption. This treatment is similar to the current income tax practice of granting the first child in a single-parent family the married exemption.

Effects on Cost Estimates

Although the Census family data has been adjusted to provide children 18 years or over with adult benefits, the estimates have still been done essentially on a Census family basis. If the nuclear family rule were selected as the appropriate one for support/supplementation, then the cost estimates prepared using the "modified" census family data would probably underestimate programme costs. Underestimation of costs occurs, for example,

when a (Census) family has a child 18 years or over who has sufficient income to make the family ineligible for support/supplementation benefits, while the nuclear family (excluding the adult child) would be eligible for support/ supplementation benefits on the basis of nuclear family income.

V. ACCOUNTING SYSTEM

Support/supplementation benefits and income taxes are computed on the basis of *annual* incomes.

Effects on Cost Estimates

Under most support/supplementation options described earlier, the accounting period (over which income is counted and benefits assigned) will be short, e.g. monthly. In some programmes, e.g. the supplementation portion of the Tax Credit option, there will be an annual reconciliation while in others there may not be such a reconciliation (e.g. in the support programmes).

For those programmes in which there is an annual reconciliation, cost estimates should be unbiased. If there is no annual reconciliation and benefits are paid on the basis of a short accounting period, the model could tend to underestimate programme costs substantially. If there were a constant (or nearly constant) effective marginal tax rate over a wide supplementation/tax income range, the underestimates for the supplementation costs could be negligible. It is the costs of support, then, where annual reconciliation or recoveries is less likely to occur, that are likely to be underestimated. The extent of the underestimation will depend primarily on the degree to which people receiving income support have erratic income flows throughout the year.

VI. BENEFIT STRUCTURES

For comparative purposes, benefit structures which implied a support level of $4,800 for a family of four were used. For a complete description of the benefit structures used for each support/supplementation option, refer to pages 75 to 80 in the text.

3. *Income Tax Adjustments Procedures*

The income support/supplementation options described in this Report would in many cases make payments to families required to pay income tax under 1974 tax laws. While there will probably always be minor elements of overlap between the tax and benefit systems, it is probable that any reformed system would seek to adjust for any major overlap. In practice this result may be achieved by rebating income taxes paid by support/ supplementation beneficiaries, by adjusting benefit payments to cover probable tax liabilities, or directly by adjusting the present tax structure. It should be noted that estimates of tax adjustments contained in this Report are based on adjusting the present tax structure. Therefore, *all* families would be subject to the

adjusted tax structure although the eligibility criteria might restrict entry to the support/supplementation programme to only a proportion of the population.

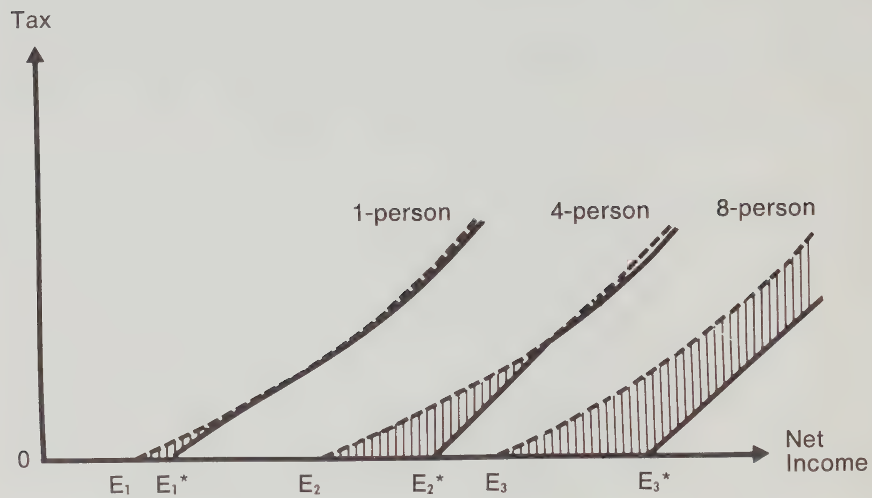
It must be emphasized again that the tax structures which are implicit in the tax adjustment procedures, described below, are *not* intended as proposals for tax change; their sole purpose is to illustrate the probable tax shift involved in "harmonizing" the support/supplementation system and the tax system.

I. UNDER INCOME-TESTED SUPPLEMENTATION OPTIONS

For all support/supplementation options, except the Tax Credit ones, the tax adjustment procedure is as follows: the support/supplementation schedule is "driven-up" at the support/supplementation programme rate from the (higher) exemption levels implied by the support/supplementation programme until they intersect with the present tax schedule. Incomes greater than the intersection level are taxed according to the present tax schedule and incomes less than the intersection level are taxed at the support/supplementation programme rate. If there is no point of intersection (because of large differences between the support/supplementation implied and present exemption levels) all incomes above the implied exemption levels are taxed at the support/supplementation programme rate. The following diagram compares the present tax schedule with the revised schedule after tax adjustments using this procedure.

APPENDIX B

FIGURE I



E_1, E_2, E_3 — Present Exemption Levels.

E_1^*, E_2^*, E_3^* — Exemption Levels Implied by Support/ Supplementation Programme

-------- — Present Tax Schedule

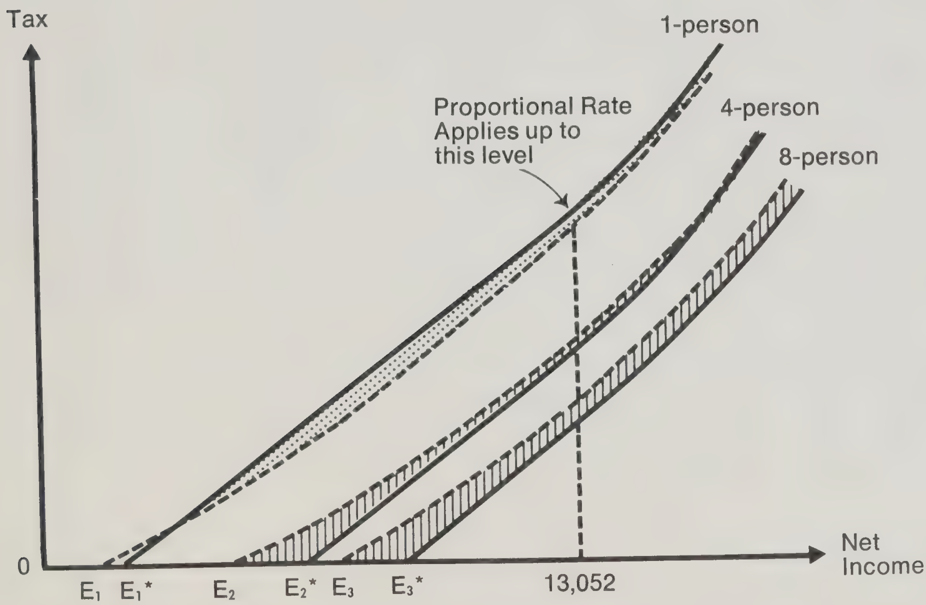
——— — Revised Tax Schedule after Tax Adjustment

||||||||||||| — Tax Rebate or Loss

II. UNDER TAX CREDIT SUPPLEMENTATION OPTIONS

For the Tax Credit options, personal exemptions are replaced with tax credits and a potential liability is computed on all net income. If only child exemptions are replaced, as is the case under one support/supplementation programme option, the potential tax liability is computed on all net income less adult exemptions. If tax credits are greater than potential tax liabilities, the difference would be paid as supplementation benefits; if tax credits are less than potential tax liabilities then (net) taxes would be payable.

FIGURE II



E_1, E_2, E_3 — Present Exemption Levels

E_1^*, E_2^*, E_3^* — Equivalent Levels Implied by Support/ Supplementation (Tax Credit) Programme

-------- — Present Tax Schedule

———— — Revised (Net) Tax Schedule After Tax Credits are Applied

||||||||||||| — Tax Loss

(dotted) — Tax Gain (refunded in the estimates presented).

APPENDIX B

To determine the potential tax liability, a proportional tax rate is applied over a wide (lower) range of net incomes with higher (marginal) rates applied over the higher net income ranges. The following table gives a tax rate structure for computing the potential tax liability in a tax credit system for which there is a constant Federal tax rate of 25 percent (or an average Federal and Provincial rate of 33⅓ percent) up to the same level of net income (family allowances excluded) at which, under the present tax schedule, taxes for a family of four are assessed at a greater marginal rate. From this level onwards, the tax-rate structure is the same as the present structure. The credits used in this illustration are $661 per adult and $192 per child (excluding family allowances). This corresponds to the 100 percent/33⅓ percent structure shown. Amounts for the 75 percent/37½ percent structure would be correspondingly higher.

Tax credits are deducted from the potential tax liability to arrive at a "basic" tax. If this basic tax is negative, then supplementation benefits are payable; if the basic tax is positive then net taxes payable are computed as follows: the basic tax is divided into federal and provincial portions and a 5 percent reduction (minimum $100 and maximum $500) is applied to the federal portion. The net taxes payable is the sum of the reduced federal tax and the provincial (portion of the basic) tax. The following table illustrates the net benefit/ tax liability schedule for a four-person family under the above assumptions on tax rates and tax credits in comparison with present taxes.

TABLE II

ILLUSTRATIVE NET BENEFIT/TAX SCHEDULE (Four-Person Family)

Net Income (excl FA)	Marginal Tax Rate (Fed & Prov)[1]	Potential Gross Fed & Prov Liability[1]	Net Credit (−) /Tax Liability (+)[2]	Current Tax Liability[2]
	%			
$ 0	33.22	$ 0	$−1,706	$ 0
3,458	33.22	1,149	− 557	0
4,000	33.22	1,329	− 377	22
8,000	33.22	2,658	852	1,040
12,000	33.22	3,986	2,180	2,271
13,052	35.88	4,336	2,530	2,618
15,184	41.19	5,101	3,267	3,353
18,382	46.51	6,418	4,535	4,621
29,042	51.82	11,376	9,306	9,393
45,032	57.14	19,662	17,456	17,546
67,418	62.45	32,453	30,247	30,337

1. Before tax credits are applied to tax liabilities and before the 5 percent Federal tax reduction.
2. Including the 5 percent Federal tax reduction (minimum $100 and maximum $500).

The tax credit system specified above closely approximates the "average" Federal and Provincial tax schedule for four-person families above the proportional rate. There are small tax decreases for four-person families and larger decreases as family size increases. For family sizes less than four, there would be small tax decreases over the very low income ranges (in the range where the proportional rate applies) and tax increases over the higher income ranges (see Figure II).

This very simple tax credit system implies substantial tax increases for certain groups. This need not be the case in any actual tax credit developed. In order to avoid a complex tax credit estimating structure, *our estimates have assumed that when taxes are higher, those taxpayers involved would have the choice of the present or revised tax schedule*. This effectively adds the difference to the cost of the option.

Effects on Cost Estimates

It is assumed that the tax-filing unit rules for income tax purposes would be the same as the current rules, that is, individuals and dependents with incomes less than specified levels. By assuming only one tax-filer per family, the model tends to overestimate income taxes for any given assumptions about exemptions and tax schedules. In addition, there are various taxable income sources (e.g. UIC, CPP, capital gains) and some allowable deductions (e.g. contributions to private retirement savings plans) which are not accounted for in the model. The net effect of these exclusions are not easily determinable.

It should be noted that the main purpose of the model is to compute estimates of benefits costs for various support/supplementation options and the problem of computing income taxes is of secondary importance at this stage. The methods of adjustments used were designed to demonstrate the possible cost of adjustment, not to suggest a specific method of coordinating the two systems. As options are further developed more administratively feasible tax system adjustments will need to be developed and assessed.

APPENDIX C
to
Progress Report
of the
Working Party on Income Maintenance

PROGRAMME OFFSETS USED IN ASSESSING NET COSTS

APPENDIX C

PROGRAMME OFFSETS USED IN ASSESSING NET COSTS

1. Introduction

Since the relationships between an income support/supplementation system and other income maintenance programmes remains to be determined, for cost estimating and analysis purposes, benefit payments in this Report are first calculated as if the other programmes (except Family Allowances) did not exist. This presents a reasonable basis for comparisons between options, but results in a gross overestimate for all options. Unfortunately, the payments from the other programmes were so poorly reported in the Survey of Consumer Finances, on which the estimates were based[1], that no comparable estimates of cost reduction can be made. However, some estimates are necessary if the probable net costs of the options are to be fairly presented; consequently, some simple estimates based on the 1974 costs of these other programmes (as estimated for *Table 4* of the Report) are shown.

The assumptions about cost offsets are not intended to imply any particular changes to individual programmes. Indeed, the question remains open as to whether the support/supplementation system would adjust to the other programmes, or vice versa. Adjustments to both are also possible. The figures presented are only intended to represent the range of cost reduction that could be expected with the introduction of a general system. Given the highly simplified assumptions on which the first round of cost estimates has been prepared (see Appendix B) and the multitude of decisions that remain to be made on programme relationships, more detailed estimates of cost offsets and net costs seemed impossible at this time. As programme designs are made more explicit, such estimates will be made, but for the moment a simple approximation is presented.

The basis of this approximation is an estimate of the cost reductions likely to be associated with a combined support/supplementation system (Option 1), with open access eligibility and a 50 percent reduction rate. All other estimates are prorations from this cost offset estimation.

2. The Basic Estimate

For the basic estimate it was assumed that 80-85 percent of general social assistance covered by the Canada Assistance Plan would be unnecessary, if a general programme were introduced. Discussions with federal and provincial officials suggested 15-20 percent of such expenditures were emergency or special-needs payments, which would continue in any case. Other programmes shared under the Canada Assistance Plan, Assistance to Native Peoples and

1. *See Appendix B, Table I.*

Veterans' Allowances appear to contain a higher element of special needs and only 60 to 70 percent of their 1974 expenditures would offset the general programme expenditures. Based on Taxation Statistics and programme records, it would seem that a least half of the benefits paid by the Unemployment Insurance Commission, Workmen's Compensation Boards and Veterans' Pensions would be paid to those in receipt of benefits under the general plan. As a minimum this would be included in income and "taxed" at the 50 percent rate. Alternatively, some social insurance benefits might be treated as *substitutes* to support/supplementation benefits, in which case they would be effectively "taxed" at a higher rate, perhaps 100 percent. Thus, the 50 percent assumption is conservative; it represents the *least* offset to be expected.

Also "taxed" at 50 percent, again adopting the conservative assumption, would likely be Manpower Training and similar allowances, and Canada Pension Plan survivors and disability payments. In these cases, however, it was assumed 70-80 percent of the total would be paid to those in receipt of benefits.

3. Other "Open Access" Estimates

To prorate the costs offsets estimated for the open access, 50 percent reduction rate case, two assumptions are required. First, the offsets for the substitute programmes such as general social assistance and Veterans' Allowances would probably not change too much with changes in the breakeven points or the reduction rates. For this reason, 90 percent of the cost offsets used in the 50 percent rate case are used in the other open access estimates.

Second, for programmes such as Unemployment Insurance, Workmen's Compensation and Manpower Training Allowances, the amount of cost offset would likely depend significantly on the breakeven points and reduction rates. Thus, the cost offsets for the 50 percent rate case are reduced for the 75/37½% and 100/33⅓% cases by the ratio of the breakeven points.

Reasonable estimates for child-related options are extremely difficult since little information on programme costs is related to the family status of recipients.

4. "Limited Access" Estimates

As discussed and described in detail in Appendix B, three eligibility rules have been used in developing these estimates:

1. All Young Family Units, (El);
2. Family Units with heads over 30, or with children or disabled; this includes 81 percent of young family units and 92 percent of the total population, (E2); and
3. A Limited Access rule, roughly paralleling some long-term provincial Social Assistance regulations; this includes 20 percent of all young family units and 24 percent of that population, (E3).

The third group was developed to produce a population which, assuming a 100 percent reduction rate, would receive an amount close to 80-85 percent of Canada Assistance Plan "general assistance" expenditures, that is, the full amount likely to be offset by a general plan. As a result, limitation of support to this group should still produce most of the direct cost offsets estimated above.

Seventy-five percent of the CAP type of offset was used in those cases where everyone was eligible for supplement, while support was on the limited access basis. Since supplementation remained on the same basis in those cases, no reduction was made in the UIC type of offset.

In the child-related options, on the other hand, supplementation payments would not be available to many now receiving social assistance, so cost offsets would not be maintained to the same degree.

Very little information is available with respect to programme payments made to those in the second eligibility range, i.e. over 30, with children or disabled. Those excluded by this rule appear to receive more than a proportionate share of Unemployment Insurance payments, but probably receive a less than proportionate share of social assistance. In fact it would not seem unreasonable to assume most of their support-type payments were of the emergency or special-needs type which would continue in any case. Based on those generalizations, cost offsets have been arbitrarily reduced only in cases where access to supplementation is limited.